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AGRICULTURAL POLICY REFORM PROGRAM**

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**SEED COTTON  
MARKETING  
IN EGYPT: A  
COMPARATIVE  
ASSESSMENT  
OF THE  
1998/99 AND  
1997/98  
SEASONS**

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## TABLE OF CONTENTS

LIST OF TABLES .....	iii
LIST OF ACRONYMS .....	iv
PREFACE .....	v
ACKNOWLEDGMENTS .....	vi
EXECUTIVE SUMMARY .....	viii
1. INTRODUCTION .....	1
2. SAMPLE SELECTION .....	2
2.1 Selection of Sample Respondents in 1997/98 .....	2
2.1.1 Sample Frame and Sample Selection .....	2
2.1.2 Characteristics of Sample Traders .....	4
2.2 Characteristics of Sample Traders in 1998/99 .....	5
2.2.1 Major Participants in Seed Cotton Marketing in 1998/99 .....	5
2.2.2 Sample Frame and Sample Selection .....	8
2.2.3 Characteristics of Sample Traders .....	9
2.2.4 Deliveries of Seed Cotton to the Gins in 1998/99 .....	13
3. SEED COTTON BUYING PRACTICES .....	15
3.1 Seed Cotton Marketing in 1997/98 .....	15
3.1.1 GOE Framework for Seed Cotton Marketing in 1997/98 .....	15
3.1.2 The Response of Traders and Farmers to the Seed Cotton Marketing Framework .....	16
3.1.3 Small Traders' Buying Practices in 1997/98 .....	17
3.1.4 Farmers' Seed Cotton Deliveries and Prices Received, 1997/98 .....	18
3.2 Seed Cotton Marketing in 1998/99 .....	21
3.2.1 GOE Framework for Seed Cotton Marketing in 1998/99 .....	21
3.2.2 The Response of Traders and Farmers to the New Seed Cotton Marketing Framework .....	25
3.2.3 Increased Private Sector Participation in Seed Cotton Buying .....	26
3.2.4 Traders' Buying Practices in 1998/99 .....	29
3.2.5 Seed Cotton Prices Received by Farmers .....	30
3.3 Comparing 1997/98 and 1998/99 .....	36
4. COMPETITION IN SEED COTTON BUYING .....	39
4.1 Competition in 1997/98 .....	39
4.2 Competition in 1998/99 .....	39

5. TRADERS' BUYING OF SEED COTTON IN EARLIER YEARS .....	41
6. TRADERS' SALES OF SEED AND LINT COTTON .....	43
6.1 Seed Cotton Sales during the 1998/99 Marketing Season .....	43
6.2 Lint Cotton Sales .....	43
6.3 Traders' Knowledge of World Lint Cotton Prices .....	45
7. SOURCE OF WORKING CAPITAL AND PAYMENT ARRANGEMENTS .....	46
7.1 Working Capital .....	46
7.2 Methods of Payment .....	47
8. PERFORMANCE OF MARKETING FUNCTIONS .....	48
8.1 Grading Seed Cotton .....	48
8.2 Transporting Seed Cotton .....	48
8.3 Storage .....	49
8.4 Other Marketing Functions .....	49
9. REMAINING CONSTRAINTS ON PRIVATE TRADER PARTICIPATION .....	51
10. SUMMARY OF LIBERALIZATION PROGRESS .....	52
REFERENCES .....	53
ANNEX 1: Registered Cotton Buyers in Egypt .....	A1-1
ANNEX 2: Supplementary Tables .....	A2-1

## LIST OF TABLES

Table 2-1: PBDAC Sales Rings, by Governorate for All of Egypt, in 1997/98 .....	3
Table 2-2: MVE Sample of PBDAC Sales Rings, 1997-98 Season .....	4
Table 2-3: Distribution of PBDAC Sales Rings by Governorate, 1998/99 .....	6
Table 2-4: Collection and Sales of Seed Cotton by Different Entities, 1998/99 .....	7
Table 2-5: MVE Sample of Seed Cotton Traders, 1998/99 Marketing Season, by Governorate and Registration Status .....	9
Table 2-6: Number of Participating Sample Traders in Seed Cotton Marketing, 1994/95 to 1998/99 .....	11
Table 2-7: Sample Traders' Participation in other Agribusiness Enterprises .....	12
Table 3-1: Seed Cotton Prices in 1996/97 and 1997/98 .....	15
Table 3-2 : Number of Traders Buying Seed Cotton, by Seller Type, 1994/95 - 1998/99 .....	19
Table 3-3 : Number of Traders Selling Seed Cotton, by Buyer Type, 1994/95 - 1998/99 .....	20
Table 3-4: Sample Farmers' Cotton Area and Production Delivered to Sales Rings, 1997/98 .....	22
Table 3-5: Average Quantities and Reported Prices for Seed Cotton Delivered to Sales Rings, 1997/98 .....	23
Table 3-6: Seed Cotton Prices Paid by Sample Traders to Farmers in 1997/98 .....	24
Table 3-7: How Sample Traders Determined Offer Prices, 1998/99 .....	27
Table 3-8: Seed Cotton Deliveries to the Gins by Company, 1998/99 .....	28
Table 3-9 : Sample Traders' Seed Cotton Purchases, by Buying Location .....	31
Table 3-10: Sample Traders' Seed Cotton Purchases, by Seller Type .....	32
Table 3-11: Sample Traders' Seed Cotton Sales, by Buyer Type .....	33
Table 3-12 : Seed Cotton Prices Paid by Sample Traders for Seed Cotton Compared to "Official" Prices and Prices Received by Farmers .....	35
Table 3-13: Comparison of Cotton Prices in 1997/98 and 1998/99 .....	38
Table 6-1 : Point of Sale for Sample Traders' Seed Cotton, 1998/99 .....	44
Table 6-2: Sample Traders' Sales of Lint Cotton .....	45
Table 8-1: Sample Traders' Storage Capacity and Use, November 1998 .....	50
Table A1-1: Registered Seed Cotton Buyers, by Governorate and Type .....	A1-2
Table A2-1: PBDAC Sales Rings Run for Private Companies, by Governorate and Variety, 1998/99 .....	A2-2
Table A2-2: Cropping Enterprises of Sample Traders : Summer Crops .....	A2-3
Table A2-3: Number of Graders, Permanent and Assigned, by Governorate, during the Marketing Season, 1997/98 .....	A2-4
Table A2-4: Number of Seed Cotton Grades Given in Sales Rings in Districts and Governorates, 1997/98 .....	A2-5

## LIST OF ACRONYMS

ALCOTEXA	Alexandria Cotton Exporters Association
APRP	Agricultural Policy Reform Program
CATGO	Cotton Arbitration and Testing General Organization
CAAE	Central Administration for Agricultural Economics (of MALR)
CIF	Cost, insurance and freight
CIT-HC	Cotton and International Trade Holding Company
CRI	Cotton Research Institute (of ARC)
CSPP	Cotton Sector Promotion Program (GTZ-funded)
ELS	Extra long staple cotton
fd.	Feddan (equivalent to 0.420 hectares or 1.037 acres)
GOE	Government of Egypt
GTZ	Deutsche Gesellschaft Fur Technische Zusammenarbeit
HC	Holding Company
IPM	Integrated Pest Management
kg.	Kilogram
LE	Egyptian Pound
lk	Lint kantar
LS	Long Staple
MALR	Ministry of Agriculture and Land Reclamation
MLS	Medium long staple cotton
mt	Metric ton
MTS	Ministry of Trade and Supply
MVE	Monitoring, Verification, and Evaluation Unit of APRP
PBDAC	Principal Bank for Development and Agricultural Credit
RDI	Reform Design and Implementation Unit of APRP
sk	Seed kantar
USAID	United States Agency for International Development
USDA	United States Department of Agriculture

## PREFACE

This report summarizes key findings from two MVE surveys of seed cotton marketing conducted in successive years. It covers cotton traders' buying practices, prices paid to farmers, assessment of competition in the market, and other business activities (e.g., farming, trading other agricultural commodities). The survey was carried out in November of 1997/98 and 1998/99,<sup>1</sup> at which point the seed cotton buying was largely completed.<sup>2</sup>

The surveys were conducted by senior Egyptian agricultural economists (Ph.D holders), most of whom are university professors. MVE feels that these analysts, though not typically used as enumerators, were able to collect more accurate data than less-well trained GOE enumerators, probing where necessary and sifting through imprecise responses to obtain the most accurate observations possible. These analysts were also able to help interpret the data and provide a more nuanced picture of how seed cotton marketing was conducted during the past two buying seasons.

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<sup>1</sup> The 1997/98 survey was completed by 25 November 1997, whereas the 1998/99 survey was completed by the end of the first week of December 1998.

<sup>2</sup> At the time of the 1998 survey, 64 of the 67 sample traders who bought seed cotton in 1998/99 said that they had finished buying seed cotton for the season.

## ACKNOWLEDGMENTS

MVE regards the design, pre-testing and administering of the survey, data entry, processing and analysis, and report writing as a collective undertaking, involving the efforts of many MVE staff and consultants. Designing the questionnaire was a team endeavor, with John Holtzman and Adel Mostafa taking the lead during both years. Adel Mostafa also identified the consultants, trained them, managed the surveys, and interpreted the results in both years. Gary Ender provided input at all stages of the process. Morsy Fawzy participated in the enumerator training and supervised the pre-testing of the questionnaire in the field in 1998. Gary Ender and Ron Krenz, frequent consultant on cotton to MVE, provided careful and critical reviews of drafts of the paper.

In November 1997, the consultants who conducted the interviews at the sales ring were:

<b>Name</b>	<b>Institution</b>	<b>Title</b>	<b>Governorate Where Did Field Work</b>
Mohammed Muselhi	Zagazig University	Professor, Agricultural Economics	Dakhalia, Damietta
Ezz El-Din Abdel Kader	AERI/Sharkeya	Specialist in Agricultural Economics	Sharkeya
Ahmed Qadry	Zagazig Institute of Efficient Productivity	Lecturer of Agricultural Economics	Kafr El Sheikh Beheira
Ossama El Bahnasawi	El Azhar University	Associate Professor, Agric. Economics	Assiut, Sohag
Mohamed Hussein Atwa	AERI Director, Beni-Suef	Agricultural Economist	Beni-Suef, Assiut

In November 1998, the consultants who conducted the interviews of seed cotton traders, mainly at their principal places of doing business were:

<b>Name</b>	<b>Institution</b>	<b>Title</b>	<b>Governorate Where Did Field Work</b>
Ezz El-Din Abdel Kader	AERI/Sharkeya	Specialist in Agricultural Economics	Sharkeya
Mohamed Hussein Atwa	AERI Director, Beni-Suef	Agricultural Economist	Beni-Suef, Fayoum
Sayed Saleh Sayed	Faculty of Agriculture, Fayoum University	Professor of Agricultural Economics	Menoufia

Name	Institution	Title	Governorate Where Did Field Work
Boraei Ahmed Ibrahim	Ministry of Agriculture	Director of Agricultural Cooperation Division, Beheira	Beheira
Samir Attia Arram	Agricultural Economics Research Institute	Agricultural Economist	Dakhalia

MVE also hired two MALR analysts, Dr. Mohamed Hassan Heikal of AERI and Dr. Mahmoud Abdel Aziz of MALR/CAAE, to carry out some 120 farmer interviews in Beheira Governorate as part of the survey of 520 cotton producing farmers in five governorates led by MALR/CAAE and GTZ/CSPP (see discussion below).

Hesham Amin created the data base for the 1997/98 and Wessam El Niazy entered the data. Gary Ender and Hesham Amin worked closely with MALR/CAAE consultants to design a data base for the 1998/99 data. Flora Naiem Kaddies assisted Adel Mostafa in working with the five MVE consultants, who administered the survey, to code the data and prepare it for entry, and she entered the data. Ms. Kaddies and Sherif Fayyad converted the data base files into Excel and SPSS files for analysis. Holtzman, Mostafa and Fayyad analyzed the data, and Holtzman drafted the report, with input from Mostafa. Ms. Kaddies, Yvonne Louis Azer, and Dalia Radwan helped prepare tables for the report, do text editing and final report formatting.

MVE staff cooperated with GTZ analysts in conducting interviews with many cotton exporters and ginneries in September-October 1998 (in the course of the joint cotton grading study) and in February 1999 (i.e., interviews that were an input into the CSPP report entitled *Liberalization of Cotton Marketing in Egypt: The Situation in the 1998/99 Season*). While the latter report was an overview of seed and lint cotton marketing, this report focuses primarily on presenting and interpreting the sample survey results from the 1997 and 1998 MVE surveys of seed cotton buyers. Our analysis deepens and completes the picture on the 1998/99 season. It also compares progress between the 1997/98 season, where there was very limited private sector participation, and the 1998/99 season, where cotton trading at each level—small registered and non-registered seed cotton buyers, private sector trading companies, and private exporters—witnessed significant expansion.

MVE also participated with CSPP and MALR/CAAE in a survey of 520 cotton producers in November and December 1998. CSPP took the lead on four governorates—Beni-Suef, Dakhalia, Menoufia and Sharkia—while MVE led the survey of producers in Beheira. These data were entered and processed by MALR/CAAE. The aforementioned CSPP report presents findings from the producer survey. MVE has drawn upon this report selectively and done a little more analysis of some of the data. This paper should not be seen, however, as a report on the producer survey. Its focus is seed cotton trading and the policy framework within which seed cotton marketing was organized by the GOE and implemented by public and private traders.



## EXECUTIVE SUMMARY

This paper compares seed cotton marketing in two successive seasons, 1997/98 and 1998/99. It is based on the findings of surveys of traders and farmers conducted in late 1997 and late 1998. These surveys were supplemented by structured informal interviews with large cotton trading companies and selected public officials.

Significant progress was made in 1998/99 in liberalizing cotton marketing in Egypt. The subsector has returned to the liberalization path it set out on in 1994/95 and 1995/96, when the transition was abrupt and there were irregularities and problems. As the 1999/2000 marketing season is underway, maintaining producer prices at 1998/99 levels, while lowering ALCOTEXA export prices, has made subsidy payments necessary. This will probably limit participation by small-scale private sector traders. MVE plans to continue monitoring liberalization and reform in seed cotton marketing, beginning with surveys of cotton producers and small traders in late 1999. MVE is hopeful that the GOE will continue forward along the cotton subsector reform path in future years.

Seed cotton deliveries by large private companies to the gins quadrupled from 6.5 percent in 1997/98 to 28.2 percent in 1998/99, according to MVE and CIT-HC figures. In 1998/99, smaller registered and non-registered seed cotton traders were more heavily involved in buying seed cotton from farmers and small traders and delivering it to the larger public and private trading and ginning companies. Mirroring the increase in private company deliveries to the gins, MVE's survey of 74 seed cotton traders in November 1998 showed that both the number of participating traders and the volume of seed cotton that they bought more than tripled from 1997/98 to 1998/99.

The seed cotton marketing system in 1997/98 was essentially uncompetitive, as only one buyer was assigned to each PBDAC-run sales ring, the buyers had to accept all the seed cotton delivered to their rings, and prices were fixed, based on a MALR decree before the harvest. Private sector participants had to furnish a bank letter of guarantee to PBDAC equivalent to 10 percent of the value of the seed cotton that would be delivered to a particular ring in order to participate. This requirement was tantamount to having that amount of cash on hand frozen in that bank's account. Only three private companies agreed to these conditions and bought seed cotton. The other larger private cotton trading (and export) companies sat on the sidelines in 1997/98, buying no seed cotton but purchasing lint cotton mainly from public sector trading and ginning companies for export. Although purchases of seed cotton directly from producers were not expressly forbidden, this practice was discouraged by the Holding Companies and unlikely to be remunerative given the deficiency payment system (where traders had to pay a premium above the world price in paying growers the GOE support price). As noted above, there was limited participation of smaller traders in 1997/98 in seed cotton assembly for larger buyers who deliver to the gins.

In 1998/99, the GOE retained the system of PBDAC-run sales rings, with one buyer per ring, buyer acceptance of all seed cotton delivered to his ring, and prices based on tables prepared by CATGO and the Cotton and International Trade Holding Company, which were tied to the opening ALCOTEXA export prices. While over three-quarters of the seed cotton was purchased through these PBDAC-run sales rings, there were about ten privately-run sales rings, as well as

purchases of seed cotton outside the rings directly from farmers and small village-based traders. This enabled small private traders to re-enter the market in a major way for the first time since the seasons of 1994/95 and 1995/96. Smaller traders and farmers negotiated seed cotton prices, although the CATGO price tables set the overall level of prices for different cotton varieties. Of the 67 sample traders who bought seed cotton in 1998/99, 42 characterized the market in their buying areas as reasonably or very competitive. This represents significant forward movement in liberalization of cotton marketing after two years of very limited private sector participation. It is hoped that there will be broader private sector participation in 1999/2000, leading to greater purchases of seed cotton by smaller traders and greater deliveries to the gins by the larger private trading companies.

Some important findings of the MVE surveys of smaller seed cotton buyers and informal interviews with larger traders and GOE officials and managers, as well as MVE conclusions about these findings, are as follows:

### **Some General Observations about Cotton Marketing**

- C Cotton growers received lower prices, relative to the previous year, in each of the past two years. Price declines were steeper at the farm than at the export level. This disappointed farmers and led to lower planted areas in successive years. Returns to cotton were also squeezed by rising input costs and land rents. The downward adjustment in prices was inevitable, given unsustainably high support prices in 1996/97 and 1997/98 and declining world prices for fine lint cotton. Estimated area planted in 1999/2000 appears to be more in line with international and domestic demand for fine cotton. Carryover stocks have declined since 1997/98 and were virtually zero for long staple cotton lint by the end of the 1998/99 season. ELS stocks are still high but should continue to decrease to more reasonable levels by the end of the 1999/2000 season.
- C Although area planted to seed cotton declined in 1998/99 relative to 1997/98, exports of lint cotton increased 38.9 percent (1998/99 shipments as of 11 September 1999 vs. 1997/98 shipments), due largely to more competitive pricing of Giza 75 and Giza 86. Large carryover stocks of the leading ELS variety Giza 70 remained by the end of 1998/99, because its opening price was set too high and not lowered until late in the export marketing season (after most foreign buyers had covered their lint requirements for the spinning season).
- C As immense stocks of Giza 70 overhung the world cotton market at the end of 1998/99 marketing season, domestic spinners pressured the GOE to provide this ELS cotton to the local mills at a substantial discount, which the GOE did. APRP/RDI offered proposals to dispose of this large inventory, which is costly to store. As Giza 70 is a more than adequate substitute for U.S. pima, maintaining the stocks will introduce uncertainty into world prices for fine cotton in 1999/2000. Exporting the carryover at discounted prices would depress world prices in the short run, hurting pima sales and Egyptian sales of 1999 ELS, but it would be healthier for the world market in the longer run. Sales of Giza 70 to local spinners, who under-spin this fine cotton into low and medium count yarn, would be the least detrimental to world market prices for LS and ELS lint cotton, although it would represent resource misallocation for the Egyptian cotton subsector.

## **Activities of Large Cotton Trading Companies**

- C The Modern Nile group, including Modern Nile Cotton Trading Company and Arab Ginning Company, emerged as the largest private sector player in the seed cotton buying, ginning, trading and export business in 1997/98 and 1998/99. This group bought 51 percent of the seed cotton delivered by private companies to the gins in 1998/99, ginned 20.9 percent of the seed cotton delivered to all gins, and exported 49.5 percent of the total volume exported by private companies.
- C ALCOTEXA added 2 new members in 1996/97, one of whom bought seed cotton in both 1997/98 and in 1998/99 (Arab Trading and Investment Company for Cotton Trading—ATICOT). Three new members were added by the end of the 1997/98 season and two more by the end of 1998/99. The number of private exporters who actually exported increased from 5 in 1997/98 to 11 in 1998/99, with a commensurate expansion in private export shipments of 36.2 percent from 17,768 mt to 24,199 mt.
- C Large cotton trading and ginning companies welcome the participation of smaller seed cotton traders, because the latter's assembly of seed cotton from numerous, geographically dispersed small farmers lowers the larger traders' transactions costs. The large companies are also reasonably satisfied with the system of sales rings run by PBDAC, though some private companies will increasingly set up their own sales rings or concentrate buying directly from farmers in particular cotton growing areas in order to obtain better quality, higher grade seed cotton destined for export.
- C Private sector participation in seed cotton marketing will expand more rapidly if there are no producer support prices or setting of prices paid at sales rings on the basis of opening ALCOTEXA export prices. Some larger private traders reported that continued GOE intervention in seed cotton pricing, whether direct or indirect, limits their activity to a certain extent.
- C While the system of sales rings provides a role in seed cotton marketing and revenue for PBDAC, buyers at rings must accept all of the seed cotton delivered to those rings, however poor the quality. To the extent that this system is maintained in future years, MVE would expect to see an increase in the number of privately-run sales rings, operated independently of PBDAC, and direct procurement by large trading companies from producers or smaller-scale buyers. This will allow these companies to buy better grades of seed cotton destined for export. As long as the GOE fixes into-spinning mill prices for lint cotton, there will be no incentive for private traders to supply better quality cotton to the public sector spinning mills.

## **Activities of Small Seed Cotton Trading Companies**

- C Smaller seed cotton buyers are diversified rural agribusiness enterprises. Buying seed cotton is typically one of 3-4 activities, including grain trading, fertilizer and feed sales, occasional trade in other commodities (horticultural products, oilseeds, fava beans), and sometimes running a small town or rural store (for groceries or household items).

- C     The MVE sample of traders includes one large company in Dakhalia, an ALCOTEXA member, that bought far more seed cotton than any other sample firm. When this firm is excluded from the sample, 66 sample traders bought an average of 1,399 seed cotton kentars each in 1998/99. This is 28.4 percent more than the average of 1,089 kentars bought by 19 sample traders in 1997/98. (A second, minor and non-exporting ALCOTEXA member is also in the sample, but his company has bought very little seed cotton).
  
- C     The sample traders sold 46.7 percent of their seed cotton to public companies in 1996/97, 32.7 percent in 1997/98 and 7.7 percent in 1998/99. Their sales to private companies increased from 48.3 percent in 1996/97 to 61.5 percent in 1997/98 to 90.8 percent in 1998/99, a positive development.
  
- C     Sample traders bought far more seed cotton in 1994/95, over 1.0 million seed kentars, and in 1995/96, 413,462 kentars, than during the past three years. The numbers of participants, 42 and 58 of 74 respectively, were also greater than in 1996/97 (16) and 1997/98 (21) , though 1998/99 (67) was the year of highest participation (among the sample traders).
  
- C     Twelve of 67 participants in 1998/99, including a number of the larger-volume buyers of seed cotton, sold their cotton as lint, averaging 3,635 lint kentars. MVE expects this to increase in the future, as traders integrate forward more into trading of lint cotton.
  
- C     88 percent of the sample traders reported that they were entirely or partly self-financed. Nearly all traders paid cash on the spot when buying seed cotton. Access to working capital likely constrains the scale and operations of most smaller private traders. Very few traders receive loans from commercial banks (5) or PBDAC (8). It is far more common (32 cases) for traders to receive advances from larger public and private trading and ginning companies to buy seed cotton. Public companies have easier access to formal credit; as their role diminishes in the future, formal credit may need to be made more readily available directly to smaller seed cotton buyers, or to large private traders who can finance procurement of a larger proportion of the seed cotton crop, including pre-financing of smaller buyers.
  
- C     Sample traders do most of the grading of seed cotton themselves, having had experience at grading in earlier years.
  
- C     In performing the seed cotton assembly function in marketing, sample traders buy and supply jute sacks to farmers, pay most of the transport costs from assembly point to gin or larger trader stores, and provide limited, short-term storage of seed cotton. Smaller traders try to move seed cotton quickly to final buyers, assuring rapid capital turnover, which helps to lower their financing requirements.

## 1. INTRODUCTION

This report summarizes the findings of two MVE surveys conducted in successive cotton marketing seasons. MVE undertook sample surveys in 1997/98 and 1998/99 to monitor the behavior of farmers and traders in marketing seed cotton. Both surveys were conducted in November, at which point most of the seed cotton had been sold by producers at sales rings (in 1997/98) or in a number of locations (in 1998/99), including sales rings or in producers' villages. The fundamental difference between the two marketing seasons was that seed cotton buying took place largely at sales rings in 1997/98, which limited private sector participation primarily to three large trading companies, while a far larger proportion of the first handling and assembly was done by smaller private sector buyers in 1998/99 at multiple venues. In 1997/98, the system of farmers selling almost exclusively at sales rings was due to the GOE decision to pay producers' seed cotton support prices that were above world market price levels in lint equivalent terms.<sup>3</sup> The GOE introduced a deficiency payment scheme, whereby the GOE agreed to pay the difference in price to producers and to traders between domestic and world prices.<sup>4</sup>

The two surveys in successive marketing years were implemented differently. In 1997/98, MVE conducted its surveys—of PBDAC sales ring managers, CATGO graders, exclusive buyers at sales rings, and producers—at the sales rings. Two MVE consultants also interviewed 14 small, registered cotton buyers in Fayoum and Beni-Suef in late 1997. Interviews were generally not, however, conducted outside the PBDAC-run sales rings, because few transactions took place outside those rings. In 1998/99, MVE conducted interviews with private buyers of seed cotton, typically at their principal place of business. MVE did not focus on interviewing exclusive buyers at PBDAC-run sales rings. Instead, MVE concentrated on interviewing seed cotton assemblers and medium-scale traders in villages, who purchased their seed cotton from small traders and farmers outside sales rings.

Note that MVE asked sample traders interviewed in 1998/99 about their seed cotton trading activities in 1997/98 and earlier years. Although this led to a longer than ideal recall period, MVE believes that the data regarding trading activities before 1998/99 are reasonably reliable and useful for comparative purposes. Ideally, MVE would have constructed a sample frame in 1997/98 of smaller seed cotton traders of registered and non-registered traders that would have been interviewed in the same way, using the same survey instrument, during both years. This was not the case, because MVE's unit of observation in 1997/98 was the PBDAC sales ring, not the individual trader. By definition, this limited MVE interviews to the three large volume private buyers in 1997/98, other than an informal survey of smaller seed cotton buyers in Middle Egypt.

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<sup>3</sup> Prices guaranteed by the GOE in 1997/98 were lower than those prevailing in 1996/97 by about 5-10 percent, because the announced seed cotton prices in 1997/98 were for a higher minimum grade and a higher out-turn ratio. Although the announced nominal prices appeared to be the same as in 1996/97, they were effectively lower.

<sup>4</sup> The three private companies that bought seed cotton in 1997/98 were not reimbursed by the GOE for deficiency payments as of the beginning of the 1998-99 marketing season. They did receive a letter from the Prime Minister addressed to the banks, stating that the GOE would eventually reimburse the private companies for their outlays on deficiency payments. This allowed those companies to obtain new loans for buying seed cotton during the 1998/99 marketing season.

## **2. SAMPLE SELECTION AND CHARACTERISTICS**

MVE decided to do sample surveys of seed cotton marketing during both seasons. In 1997/98 the sample unit was PBDAC-run sales rings. In 1998/99 the sample unit was domestic seed cotton traders.

### **2.1 Selection of Sample Respondents in 1997/98**

The MVE Unit chose 50 sales rings as observation points for conducting the survey of various participants in the seed cotton marketing system in 1997/98. MVE selected sales rings to achieve sufficient representation of public and private sector traders and ginneries as buyers, in addition to covering the main cotton varieties grown in Egypt. Private buyers were deliberately over-represented. MVE developed structured questionnaires to be administered to producers, PBDAC managers, buyers' representatives, and CATGO graders found at the 50 sales rings, as well as CATGO General Directors in cotton producing governorates.

MVE wanted to ensure that producers were sampled from the main cotton-producing governorates and that a sufficient number of important varieties were included in the sample rings: Giza 86 (Dakhalia), 75 (Gharbia), 85 (Sharkia), 80 (Beni-Suef), 83 (Assuit and Sohag), 45 (Damietta), 70 (Beheira), 77 (Kafr El Shiekh), and 76 (Damietta). After establishing these strata, MVE selected districts randomly (see Table 2-2). As a fourth level of stratification, MVE sought representation of both private and public buying companies at the sales rings.

Comprehensive questionnaires, administered as mini-surveys, were completed at about fifty sales rings over one month as follows:

- C A total of 296 farmers, who produced nine varieties of cotton in eight governorates, was interviewed.
- C MVE interviewed 50 PBDAC managers who ran the 50 selected rings.
- C At the sales rings, MVE interviewed 50 representatives of both private and public buying companies.
- C Fifty CATGO graders were also interviewed at the 50 sales rings.
- C A separate questionnaire was administered to the CATGO General Directors in the eight governorates.

The sample frame was stratified in three dimensions: region (Upper, Middle, and Lower Egypt); districts within governorates; and marketing rings where the buyers were either public or private sector.

#### **2.1.1 Sample Frame and Sample Selection**

The sample frame consisted of 857 PBDAC sales rings. These rings were classified by governorate (and variety) as shown in Table 2-1.

**Table 2-1: PBDAC Sales Rings, by Governorate for All of Egypt, in 1997/98**

Region	Governorate	Varieties (Giza)	Number of Sales Rings	No. Rings with Private Buyers	No. Rings with Public Buyers
Delta	Beheira	70, 75, 76	160	9	151
	Dakahlia	86	112	5	107
	Damietta	45	13	0	13
	Gharbia	75	68	4	64
	Ismailia	85	3	0	3
	Kafr El Sh.	75	110	5	105
	Menoufia	75	35	4	31
	Qalubia	85	12	0	12
	Sharkia	85	99	8	91
Middle E.	Beni-Suef	80	62	4	58
	Fayoum	85	43	5	38
Upper E.	Assiut	83	47	2	45
	Minya	80	71	6	65
	Qena	80	1	0	1
	Sohag	80	21	3	18
TOTAL			857	55	802

Source: PBDAC

Note: *Public* rings refers to the fact that the seed cotton buyer at the ring was a public sector cotton trading or ginning company. *Private* rings refers to private sector trading or ginning companies buying at the PBDAC-run sales rings.

The village rings actually sampled by MVE are shown in Table 2-2 and classified by governorate, district, variety and whether the buyers at those rings were public or private companies. Sample rings were chosen to provide a greater than proportional probability that rings with private sector buyers would be selected. MVE sampled 35 public sales rings and 15 private sales rings. Hence, 15 of 55, or 27 percent, of the total private sales rings were chosen, which contrasts with sampling of six percent of the public sector rings. The varietal breakdown of sales rings is as follows: Giza 70 (6); Giza 76 (2); Giza 86 (8); Giza 45 (2); Giza 75 (6); Giza 77 (2); Giza 85 (7); Giza 83 (8); Giza 80 (9). Hence, the number of sales rings by major cotton type can be summarized as follows: ELS (12); LS (21); MLS (17). This split is roughly proportional to seed cotton output by type in 1997/98, though LS varieties (Gizas 75, 85, 86) are somewhat over-represented and MLS varieties (Gizas 80 and 83) are somewhat under-represented.<sup>5</sup>

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<sup>5</sup> Seed cotton production in 1997/98 was as follows: 1,452,270 kentars of ELS varieties (21.6%); 2,497,480 kentars of LS varieties (37.1%), and 2,774,710 kentars of MLS varieties (41.3%).

**Table 2-2: MVE Sample of PBDAC Sales Rings, 1997-98 Season**

<b>Governor-ates</b>	<b>Districts</b>	<b>Variety</b>	<b>No. Rings</b>	<b>Companies</b>	<b>Pub. Rings</b>	<b>Priv. Rings</b>
Kafr El Sheikh	Riad	G 75	4	Cairo, Misr, Mod. Nile, Arab G.	2	2
	Mitobas	G 77	2	Port Said, Mod. Nile	1	1
	Beila	G 75	2	Sharkia , Misr Ginning	2	0
Beheira	Damanhour	G 70	3	Mod. Nile, Misr G., Misr E.	2	1
	Shabrakhit	G 70	3	Mod. Nile, Alex (2),	2	1
	Mahmoudaya	G 76	2	Mod. Nile, Misr Export	1	1
Sharkia	Diarb Negm	G 85	2	Delta Ginning, Cairo	2	1
	Zagazig	G 85	3	Alcotan, (2), Sharkia	3	
	Abu Kibir	G 85	2	P. Said , Mod. Nile	1	
Dakahlia	Aga	G 86	2	Misr Export, Arab Ginning	1	1
	Manzala	G 86	4	Alcotan, P. Said, Mod. Nile (2)	2	2
	Sinbelaween	G 86	2	Arab Ginning, Misr Export	1	1
Damietta	Kafr Saad	G 45	2	Sharkia, Alex. Commercial	2	0
Beni-Suef	Nasser	G 80	3	Misr G., Cairo, Arab Ginning	2	1
	El Fashn	G 80	3	P. Said, Alex., Misr Ginning	3	0
	Ahnasya	G 80	1	Sharkia	1	0
Assuit	Abnoub	G 83	3	Sharkia, Misr Ginning, Arab	2	1
			3	Trade & Investment	2	1
	Abu Tig Assiut	G 83	2	Cairo, Mod. Nile, Sharkia	2	0
		G 83		Sharkia, Cairo		
Sohag	El Maunsha	G 80	2	Alex., Arab Trade & Investment	1	1
<b>TOTAL</b>			<b>50</b>		<b>35</b>	<b>15</b>

Source: PBDAC

### 2.1.2 Characteristics of Sample Traders

As can be seen from Table 2-2, MVE sampled sales rings of all three private sector seed cotton buyers in 1997: Modern Nile (10), Arab Ginning (3), and Arab Trade and Investment and Cotton Trading Company, or ATICOT (2). Rings where the buyer was a public company included those of all six cotton trading companies and of two of the three public ginners (Misr and Delta Ginning Companies).

Modern Nile and Arab Ginning are majority-owned and managed by the Modern Nile group, comprised of Amin Abaza and Mohammed Marzouk (owner of Giza Spinning and Weaving Company). At the time of the 1997/98 survey, this group had a 51 percent ownership share of Arab Ginning Company; other shares were held by the Cotton and International Trade Holding Company (19%), a group of investors in Alexandria led by Amr Badr el Din (14%), workers (10%), and many small investors (6%). Arab Ginning Company was privatized in late 1996 and



is one of two private sector ginning companies (the other is Nile Ginning, which bought no seed cotton in 1997/98).<sup>6</sup>

Modern Nile is an entirely private cotton trading company and ALCOTEXA member since 1996/97. It was the leading private sector exporter of lint cotton in 1997/98 and 1998/99, shipping 163,900 lint kentars or 8,195 mt of mainly Giza 86 in 1997/98. 1998/99 exports reached 11,305 mt (with commitments of 14,223 mt) as of late August 1999. Modern Nile also imported Sudanese lint cotton for Giza Spinning and Weaving several times from 1995 to 1997, but it did not import lint in 1998/99.

ATICOT, owned and managed by Ezz El Din El Dabbah, operated only in Upper Egypt in 1997/98. ATICOT bought 25,000 seed cotton kentars of Giza 83 at 5 rings in the Sohag and El Minya governorates of Upper Egypt. It sold most of its ginned (lint) cotton to public sector spinning companies. Although registered as a member of ALCOTEXA by October 1996, ATICOT did not export lint cotton that year (1996/97) or in 1997/98. In 1998/99, ATICOT expanded its seed cotton buying operations beyond Upper Egypt to the following locations:

Lower Egypt

Kafr El Sheikh (2)  
Sharkeya (1)

Upper Egypt

El Minya (5, of which 2 privately run)  
Sohag (2)

Eight of the 10 rings were run by PBDAC and two were privately run. ATICOT exported for the first time in 1998/99, shipping 458 mt of lint cotton, mainly Giza 89 and Giza 86, in 1998/99.

MVE also conducted interviews with a sample of three registered cotton traders in Beni Suef and eleven registered traders in Fayoum in 1997/98. None of these smaller registered traders were active in cotton trading that year.

## **2.2 Characteristics of Sample Traders in 1998/99**

The unit of observation in 1998/99 was not PBDAC sales rings but individual seed cotton buying companies (or individuals). Sample selection is described in section 2.2.2. Nevertheless, MVE will provide the reader with comparative information about the number and types of seed cotton buying points during the 1998/99 season.

### **2.2.1 Major Participants in Seed Cotton Marketing in 1998/99**

PBDAC once again operated numerous sales rings all over Egypt in 1998/99. There were 892 PBDAC-run sales rings in, 35 more rings than in 1997/98. The distribution of sales rings by governorate (and variety) appears in Table 2-3 below.

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<sup>6</sup> Arab Ginning's privatization was more successful than Nile Ginning's, largely because the former was part of a larger, integrated seed cotton buying and ginning, as well as lint cotton trading and export, enterprise. Nile Ginning is a minor seed cotton buyer, does not export lint cotton, and does mainly custom ginning. Even with respect to ginning, Arab Ginning ginned 1.29 million lint cotton kentars in 1997/98 and 0.94 million kentars in 1998/99, more than Nile Ginning, which did 0.99 million kentars in 1997/98 and 0.82 million kentars in 1998/99.

**Table 2-3: Distribution of PBDAC Sales Rings by Governorate, 1998/99**

<b>Governorate</b>	<b>Varieties</b>	<b>No. of rings</b>	<b>Total quantity of seed cotton delivered (kts.)</b>	<b>Aver. amount delivered/ring (kentars)</b>
Alexandria	G-70	1	139	139
Beheira	G-70	143	667,710	4,669
Dakahia	G-86	95	292,658	3,081
Damietta	G-76, 86, 45	26	42,320	1,628
Sharkia	G-85	121	247,286	2,044
Menoufia	G-89	46	198,028	4,305
Kafr El Sheikh	G-77, 86, 89, 45, 87	112	375,058	3,349
Gharbia	G-77, 70, 86, 89, 45	76	262,288	3,451
Qalubia	G-85	19	49,212	2,590
Ismailia	G-85	2	2,587	1,294
Fayoum	G-83	41	151,562	3,697
Beni-Suef	G-80	50	124,904	2,498
Minya	G-80, 83	70	252,545	3,608
Assuit	G-83	57	248,706	4,363
Sohag	G-83	33	77,345	2,343
<b>Total</b>		<b>892</b>	<b>2,992,348</b>	<b>3,355</b>

Source: PBDAC (as reported in PBDAC interview note, R. Krenz)

As shown in Table 3-8, large private sector traders bought 575,047 kentars of seed cotton, or 51.0 percent of their total estimated purchases, at 149 PBDAC sales rings (see Table A2-1 annex for a detailed breakdown of purchases by private company by governorate/variety). The average quantity purchased per sales ring was 3,859 kentars, slightly higher than the overall average of 3,355 seed kentars for all 892 rings (see Table 2-4). In addition, private buyers purchased 27.7 percent of their seed cotton from cooperatives, 16.9 percent from traders or brokers, and 4.4 percent at the gins (see Table 3-8).

Different private sector companies employed different seed cotton buying strategies. Modern Nile & Arabia Ginning group bought 248,590 kentars of seed cotton at PBDAC sales rings (or 43.2% of the total purchased at PBDAC-run sales rings by private companies—the largest amount by a private company). The Modern Nile group, bought nearly 49,350 seed cotton kentars at its Arab Ginning Company gins, as well as 29,054 kentars through traders or brokers. It also bought its largest proportion of seed cotton through cooperatives—282,711 kentars or 46.4 percent. Nile Ginning was the second largest private sector buyer in 1998/99, purchasing 111,382 kentars, of which 97.2 percent at PBDAC sales rings. ATICOT bought at eight PBDAC rings in 1998/9, as well as at two private sales rings in El Minya. It appears to have been the only large trading company to run private rings. Overall, it collected 70,580 kentars, of which 24,563 kentars at eight PBDAC sales rings, 16,017 kentars from traders or brokers (largely at private sales rings), and 30,000 kentars from cooperatives.

EMIPAC collected 123,435 kentars of seed cotton at special delivery centers set up for producers of certified cotton seed. The other private companies bought mainly through PBDAC sales rings and from cooperatives, but some bought directly from producers or private brokers. Nefertiti, the number three private exporter, bought 18,150 kentars of seed cotton directly from producers and traders. El Watany bought 31,693 kentars through brokers at four up-country offices, and Nassco, the number two private exporter, bought a small quantity (1,636 kentars) directly from producers and at gins owned by Delta Ginning Company.

In addition to the PBDAC run sales rings and private exporters' purchases from farmers and smaller traders, two cooperatives collected seed cotton on behalf of their members. The General Cooperative Society for Land Reclamation<sup>7</sup> collected 164,810 kentars at 53 collection centers, receiving an average of 3,110 kentars per center, which was comparable to the average of 3,355 kentars received per PBDAC sales ring (see Table 2-4). The Land Reclamation Coop then sold 48,000 kentars to Modern Nile and 116,810 kentars to the public sector cotton trading companies.

The General Agrarian Reform Cooperative Association also collected 489,631 kentars of seed cotton on behalf of farmer members at 500 cooperative stores spread throughout all the cotton-producing governorates. The Cooperative then sold about half of this seed cotton to Modern Nile (234,711 kentars), 30,000 kentars to ATICOT, and the rest to the public sector cotton trading companies (who collectively purchased 224,920 kentars).

**Table 2-4: Collection and Sales of Seed Cotton by Different Entities, 1998/99**

	<b>Agrarian Reform Cooperative</b>	<b>Land Reclamation Cooperative</b>	<b>Total Coops</b>	<b>PBDAC</b>
No. Sales Points	500	53	553	892
Total Vol. Seed Cotton Collected	489,631	164,810	654,441	2,992,348
Mean Collected per Sales Point	979	3,110	NA	3,355

Source: Interview notes (provided by GTZ/CSPP) and Table 3-8.

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<sup>7</sup> This cooperative has approximately 45,000 members who cultivated 60,912 feddans of seed cotton in 1998/99 (though not all of them grew cotton). The table below shows the distribution of *area planted* and rings organized by the Land Reclamation Coop.

<b>Governorate</b>	<b>Area (fdn)</b>	<b>No. Rings</b>	<b>Governorate</b>	<b>Area (fdn)</b>	<b>No. Rings</b>
Kafr El Sheikh	22,100	20	Middle Egypt	2,958	2
Sharkia	11,550	10	Alexandria	2,732	3
Dakhalia	11,545	5	Nobareya	1,600	3
Beheira	8,427	10	Total Egypt	60,912	53

The Multi-Purpose Cooperative was not involved in any seed cotton collection in 1998/99 and has not been an active buyer since the 1994/95 and 1995/96 seasons.

## **2.2.2 Sample Frame and Sample Selection**

In establishing the sample frame, MVE chose cotton-producing governorates to match a GTZ producer survey that covered four governorates: Beni-Suef, Dakahlia, Menoufia, and Sharkia. MVE added Beheira to the producer survey, as it is a governorate that produces the ELS cotton varieties. GTZ had not selected any governorate producing an ELS variety. Sampling both traders and farmers in five governorates was designed to give an integrated picture of cotton production and marketing in those areas. MVE was also interested in getting the producer and trader perspectives on the cotton marketing season, how competitive trading was, and prices received by farmers.

Second, MVE interviewed nearly all of the large private traders separately, as they tend to be exporters as well as seed cotton buyers. These larger traders were excluded from the seed cotton buyer survey, because of their scale, financing, and involvement in multiple cotton enterprises. MVE conducted structured informal interviews with these major public and private trading and ginning companies.

Third, MVE consulted the list of registered seed cotton traders maintained by the Cotton International Trade Holding Company (CIT-HC), as they are the traders who are officially authorized to buy seed cotton. MVE sampled varying proportions of the population of registered traders in the governorates where the survey was conducted, referring to the most recent list<sup>8</sup> of (CIT-HC) in 1998/99. The sampled percentage ranged from 54 percent in the Delta governorates where MVE conducted the survey (including Beheira, Dakhalia, Menoufia and Sharkia) to 91 percent in the Middle Egypt governorates of Beni-Suef and Fayoum. The interested reader is referred to Annex 1 for a more detailed discussion of registered cotton traders in Egypt and a table which shows their distribution by governorate and by buyer type (private vs. public, and by type of private and public buyer).

Fourth, MVE targeted the non-registered traders in the five governorates in an iterative manner. These traders either buy for their own account, or they act as agents or commission brokers to larger traders. MVE asked large private sector buyers of seed cotton from whom they purchased seed cotton in 1998/99. In interviewing both registered and non-registered traders in the sample, MVE inquired about other non-registered traders active in the same cotton-growing areas.

MVE realizes that there are more non-registered traders than identified initially and enumerated. In fact, sample traders named another 28 non-registered traders operating in the five sample

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<sup>8</sup> MVE can furnish a copy of this list upon request. The most recent list available covers the period through the end of the 1997/98 cotton marketing season and into the first few months of the 1998/99 season.

**Table 2-5: MVE Sample of Seed Cotton Traders, 1998/99 Marketing Season,  
by Governorate and Registration Status**

<b>Governorates</b>	<b>Registered Traders</b>	<b>%</b>	<b>Non-Registered Traders</b>	<b>%</b>	<b>Total Traders</b>	<b>%</b>
<b>Behira</b>	8	61.5	5	38.5	<b>13</b>	<b>100.0</b>
<b>Dakahlia</b>	7	43.8	9	56.2	<b>16</b>	<b>100.0</b>
<b>Sharkia</b>	5	33.3	10	66.7	<b>15</b>	<b>100.0</b>
<b>Menoufia</b>	1	8.3	11	91.7	<b>12</b>	<b>100.0</b>
<b>Beni-Suef</b>	1	12.5	7	87.5	<b>8</b>	<b>100.0</b>
<b>Fayoum</b>	9	90.0	1	10.0	<b>10</b>	<b>100.0</b>
<b>Total</b>	<b>31</b>	<b>41.9</b>	<b>43</b>	<b>58.1</b>	<b>74</b>	<b>100.0</b>

Source: Calculated from the cotton trader survey, 1998

governorates.<sup>9</sup> Table 2-5 shows the breakdown of the MVE sample of private traders by governorate and registration status for 1998/99. The registered traders (excluding one exceptionally large buyer) bought an average of 1,731 seed kentars, while the non-registered traders bought an average of 953 seed kentars.<sup>10</sup> Hence, non-registered traders operated at 55 percent of the scale of registered traders in 1998/99.

### **2.2.3 Characteristics of Sample Traders**

Note that 31 of the 74 sample traders are registered with the CIT-HC.<sup>11</sup> Forty-three or 58 percent of the sample traders are non-registered, of which 17 are commission agents or buyers for other companies,<sup>12</sup> 17 buy directly from farmers in villages for their own account, and 9 are farmer/traders based in villages and buy from other producers in their villages.

Most of the traders (65 or 88%) operate from a fixed place of doing business. All of the sample traders except one specialize in buying only one seed cotton variety, which they bought in only one governorate. Hence, seed cotton trading by most buyers tends to be small-scale and localized commerce at this point.

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<sup>9</sup> These 28 non-registered traders were not interviewed in November 1998. They will be part of a larger sample frame for 1999 or later years.

<sup>10</sup> The largest seed cotton buyer, an exporter and member of ALCOTEXA, purchased an estimated 100,000 of seed cotton. If included in the calculation of mean purchases, the figure rises sharply to 4901 seed kentars per registered trader.

<sup>11</sup> 24 of the 31 registered traders were concentrated in 3 of the 6 sample governorates: Beheira (8), Dakhalia (7), and Fayoum (9).

<sup>12</sup> 13 of these 17 unregistered buyers operate in Sharkia (6) and Dakhalia (7).

The participation by the 74 sample traders in seed cotton buying over the past five years is shown in Table 2-6. Note that the data presented were collected from the 74 sample traders, interviewed in late 1998, only. Hence, the recall period is long for the earlier years and the data may be subject to some recall error. Furthermore, the 1998/99 sample may not be representative of traders participating in earlier years. Ideally, a sample frame would have been established each year and a different representative sample chosen every year for interviews. Although the MVE approach of obtaining information retrospectively about the seed cotton buying of the 74 traders over a five-year period may lead to some bias in the findings from earlier years, MVE believes that its approach is good enough for understanding seed cotton marketing differences over the recall period. The fact that 58 of 74 sample traders were active in 1995/96 suggests that the sample is representative enough. Note, however, that the 1998/99 sample contains traders who entered the business after the years of 1994/95 and 1995/96, when many private traders were active. (It also contains 7 traders who had exited the business by 1998/99). Hence, there is probably a bias toward under-estimating participation in the earlier years. The 1998/99 sample data suggest that participation was greatest in 1998/99 when it may have been greater in 1994/95 and 1995/96. Without a census of traders in each year (and selection of a representative sample), one cannot make definitive statements.

Of the 67 traders who bought seed cotton in 1998/99, 48 (72%) bought only for their own account, 13 (19%) bought only for another company, and six bought both for their own account and for another company. Those 19 traders (28%) who bought for another company are often advanced funds to buy seed cotton. They typically receive modest (implicit) commissions from larger trading companies, who agree to pay them a particular price for a particular type of seed cotton.

In contrast to 1998/99, a lower percentage of sample traders among the participants in 1997/98 and 1996/97 bought for other companies—20% and 19% respectively. This is because the high support price in 1996/97 and the deficiency payment scheme of 1997/98 made it more difficult for smaller private traders to become involved in assembling seed cotton for larger operators. The proportions of sample traders buying for other companies in 1994/95 and 1995/96—26% and 36% respectively—were closer to the proportion in 1998/99. All three of these years were characterized by broader participation by small private traders.

Sample traders' participation in other agribusiness enterprises is summarized in Table 2-7. Forty-two of them are involved in other agribusiness activities, of which 40 buy and sell other grains, particularly rice (21), wheat (37), and maize (28). Half of these 40 sample traders buy and sell two grains, typically both wheat and maize. Thirteen sample traders traded all three grains. The average traded volumes of wheat (1,581 mt) and maize (1,111 mt) during the most recently completed marketing seasons are significant and exceed, by a wide margin, the average volume of seed cotton traded. In addition, nine seed cotton traders sell fertilizer (an average of 233 mt per trader), five sell livestock feed, three trade horticultural products, and three trade oilseeds. This diversity in buying and selling activities illustrates that most seed cotton traders trade several commodities in order to maintain an income stream throughout the year and to spread risk. When the opportunity to trade one commodity, such as seed cotton, is limited (as it was during 1996/97 and 1997/98), these traders likely shift their management attention and resources to other trading (and processing) enterprises.

**Table 2-6: Number of Participating Sample Traders in Seed Cotton Marketing,  
1994/95 to 1998/99**

<b>Gov.</b>	<b>Bought for Whom</b>	<b>1998/99</b>	<b>1997/98</b>	<b>1996/97</b>	<b>1995/96</b>	<b>1994/95</b>
<b>Beheira</b>	Only own comp.	9	1		7	3
	Only other comp.	2	2	1	2	2
	Both					
	<b>Total</b>	<b>11</b>	<b>3</b>	<b>1</b>	<b>9</b>	<b>5</b>
<b>Sharkia</b>	Only own comp.	13	1	1	12	8
	Only other comp.	1			2	1
	Both	1				
	<b>Total</b>	<b>15</b>	<b>1</b>	<b>1</b>	<b>14</b>	<b>9</b>
<b>Menoufia</b>	Only own comp.	8	6	3	4	2
	Only other comp.	2			2	3
	Both	1	1	1	1	3
	<b>Total</b>	<b>11</b>	<b>7</b>	<b>4</b>	<b>7</b>	<b>8</b>
<b>Beni-Suef</b>	Only own comp.	8	6	6	7	7
	Only other comp.					
	Both					
	<b>Total</b>	<b>8</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>7</b>
<b>Fayoum</b>	Only own comp.	5			3	6
	Only other comp.	3			1	3
	Both				1	1
	<b>Total</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>10</b>
<b>Dakahlia</b>	Only own comp.	5	2	3	10	3
	Only other comp.	5	1	1	4	1
	Both	4			2	2
	<b>Total</b>	<b>14</b>	<b>3</b>	<b>4</b>	<b>16</b>	<b>6</b>
<b>Total</b>	Only own comp.	<b>48</b>	<b>16</b>	<b>13</b>	<b>43</b>	<b>29</b>
	Only other comp.	<b>13</b>	<b>3</b>	<b>2</b>	<b>11</b>	<b>10</b>
	Both	<b>6</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>6</b>
	<b>Total</b>	<b>67</b>	<b>20</b>	<b>16</b>	<b>58</b>	<b>45</b>

Source: MVE cotton trader survey, November 1998

**Table 2-7: Sample Traders' Participation in other Agribusiness Enterprises**

(Vol. in mt)

Commodity	Beheira		Dakahlia		Sharkia		Menoufia		Beni-Suef		Fayoum		Total	
	No.	Avg. Vol.	No.	Avg. Vol.	No.	Avg. Vol.	No.	Avg. Vol.	No.	Avg. Vol.	No.	Avg. Vol.	No.	Avg. Vol.
<b>Rice</b>	2	100	9	256	7	359	0	0	3	143	0	0	21	260
<b>Wheat</b>	6	3,972	10	634	8	1,919	3	125	6	777	4	1,988	37	1,581
<b>Maize</b>	4	2,588	6	1,980	7	299	3	588	6	431	2	1,211	28	1,111
<b>Fertilizer</b>	0	0	1	200	2	400	2	88	3	27	1	1,000	9	233
<b>Horticulture</b>	1	4,200	0	0	0	0	1	200	1	10	0	0	3	1,400
<b>Feed</b>	0	0	1	540	0	0	1	0.2	3	16.7	0	0	5	118
<b>Other</b>	1		0		0		0		4		2		7	

Note: Other commodities include oilseeds (3 traders), fava beans (2), and onions, cotton seed, wheat flour, basil and a medicinal plant (1each).



Beyond trading agricultural commodities, 19 sample traders report other business activities. These included running a grocery store (5), a poultry farm (1), a weighing enterprise (1), and a small store selling household items (2), as well as selling scarto to those making mattresses and pillows (3), selling cloth (2), working in the construction field (2), trading bottled natural gas (1), and employment as a teacher (1) and lawyer (1).

Forty-two (57%) of the sample traders are farmers. As shown in Annex 2, three-quarters (32) of those 42 farmers grew cotton during the summer cropping season of 1998 (27 reporting that it was their most important crop). Twenty-five grew maize and 17 grew rice. Another ten farmers grew other crops, which were most commonly horticultural crops. During the winter cropping season of 1997/98, nearly all of the sample traders (38) cultivated wheat, with half (19) of those reporting that it was their most important winter crop. Almost as many (35) traders grew berseem, of which 22 grew it as a second or third crop. Nine traders cultivated fava beans, and six grew other crops.

#### **2.2.4 Deliveries of Seed Cotton to the Gins in 1998/99**

Deliveries to cotton gins are concentrated in the hands of the largest public and private trading and ginning companies, which are ALCOTEXA members and hence exporters. Two related companies, Modern Nile Cotton Trading Company and Arab Ginning Company, delivered 54.1 percent of the seed cotton to gins delivered by private companies,<sup>13</sup> as shown in Table 3-8. From this same table, we can also see that the eleven private trading companies who delivered seed cotton to the gins obtained 190,085 seed cotton kentars of 1,127,843 kentars (or 16.9 percent) that they bought from other private traders and brokers. This matches very closely the 193,732 seed kentars that MVE sample traders, including the large Dakhalia trader (and ALCOTEXA member) reported buying in 1998/99.<sup>14</sup> Both of these figures are likely to be underestimates, because there were 3-4 other important cotton-producing governorates not in MVE trader sample and hence traders in those governorates were not interviewed.

At a minimum, the underestimate was 7,250 seed kentars (see second column of Table 3-11). This amount was delivered by sample traders to public sector companies at PBDAC rings. Adding this to 190,085 kentars yields 197,335 kentars collected outside rings. The 85,982 kentars bought by sample private traders and delivered to larger private trading and ginning companies (see columns four and six of Table 3-11) ended up being delivered by those companies to the gins. Hence, those 85,982 kentars are included in the 190,085 kentars that the larger companies delivered to gins. Assuming that the MVE sample missed at least 25% of the smaller registered traders and non-registered traders who bought seed cotton in 1998/99, purchases of seed cotton from farmers outside of PBDAC sales rings may have been 25% or more higher than the 93,732 kentars bought outside the rings by sample traders, or 23,433 to 46,866 kentars. As in the case of sample traders, most of this seed cotton was then likely sold to larger private traders and ginners, who delivered it to the gins. Assuming 10-20% of this additional amount was delivered to public companies at PBDAC sales rings, slightly larger than the 7.7% of purchases by sample traders, the additional

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<sup>13</sup> These two private companies delivered 15.2 percent of the total seed cotton to the gins that was delivered by both public and private companies.

<sup>14</sup> The large trader, Ahmed Baragith, in the MVE sample also appears in Table 3-8 as Tanta Cotton Trading Company.

volume collected by small private traders (that is not included in the deliveries of large private trading companies to the gins) might have been in the 2,343 to 9,373 seed kantar range. This would put MVE's best guesstimate of first purchases by private, small traders outside of PBDAC rings at 199,678 to 206,708 kantars. In light of the rather imprecise nature of these data, MVE estimates these purchases at 200,000 to 205,000 kantars for 1998/99.

Krenz (1999) assumes that each seed cotton assembler typically buys an average of 800 seed kantars. To buy 190,085 kantars, he calculated that 238 small traders would be required. MVE's survey shows that traders bought an average of 2,871 seed kantars per trader, a higher figure than Krenz's. Taking the 93,732 seed kantars that 66 survey traders reported buying in 1998/99 (excluding Tanta Cotton Company), survey traders bought an average of 1,399 seed kantars, 1.75 times as large as Krenz's estimate of 800 kantars per trader. Netting out the 81,021 kantars bought by Tanta Trading Company from the estimated total purchases outside of rings of 200-205,000 kantars, MVE estimates that a total of 85-89 small traders assembled the remaining 119,000 to 124,000 kantars directly from farmers outside rings (assuming each small trader bought an average of 1,400 kantars) in 1998/99.

### 3. SEED COTTON BUYING PRACTICES

#### 3.1 Seed Cotton Marketing in 1997/98

The cotton marketing system was orderly but not competitive. Fixed producer prices and the system of one buyer per ring were evidence of an essentially administered system, not a competitive and market-driven one. Few transactions took place outside sales rings, and most registered traders did not participate in seed cotton buying (see discussion below).

##### 3.1.1 GOE Framework for Seed Cotton Marketing in 1997/98

In 1997/98 the GOE announced the floor prices of seed cotton at the beginning of the growing season. These prices were higher than the equivalent prices for lint cotton in the international market. On first glance, these prices seemed to be comparable to the high 1996/97 producer support prices. They were effectively lower, however, because the seller of the seed cotton had to achieve a higher grade and a higher out-turn ratio than in 1996/97 to receive the same price as in 1996/97. As shown in Table 3-1, prices ended up being 5.1 percent (Giza 45) to 10 percent (Giza 85) lower in 1997/98 than in 1996/97.

**Table 3-1: Seed Cotton Prices in 1996/97 and 1997/98**

(LE per kantar of seed cotton)

Variety (Giza)	1996/97 Price for Grade Good	1996/97 Out-turn Ratio	1997/98 Price, G/FG	1997/98 Out-turn Ratio	1997/98 Price for Grade Good at 1996/97 Out-turn	Effective Price Decrease (Percent)
45	700	0.96	700	0.98	664	5.1
70	565	1.08	555	1.10	520	8.0
77	550	1.08	550	1.13	502	8.7
76	590	1.06	590	1.09	550	6.8
75	500	1.15	500	1.17	465	7.0
86	500	1.15	520	1.20	473	5.4
89	500	1.15	500	1.20	454	9.2
85	500	1.15	500	1.21	450	10.0
80	440	1.18	440	1.20	405	8.0
83	440	1.18	440	1.21	402	8.6

Source: APRP/RDI and the Cotton Marketing Supervisory Committee.

Note: 1996/97 prices are for the grade "Good." 1997/98 prices are for the grade "Good/Fully Good."

Note: The out-turn ratio is a measure of ginning out-turn in lint kantars per unit input in seed kantars.

Ministerial Decree No. 931, signed by the ministers of MALR, MPE, and MTS in August 1997, organized the marketing system through the PBDAC sales rings. The main provisions of this decree were as follows:

- C PBDAC would run 857 sales rings in different governorates producing cotton.
- C For a marketing and handling fee, PBDAC would procure the seed cotton on behalf of cotton buyers, who would accept all the seed cotton delivered to the rings.
- C There would be only one buyer per ring, and only one variety delivered to any particular ring (as in the past).
- C Private sector buyers would be required to deposit 10 percent of the estimated value of the seed cotton to be delivered to any particular ring (based on local production estimates) with PBDAC. Public companies did not need to meet this working capital requirement.
- C Private buyers would pay the full price of the seed cotton, including the deficiency payment, to producers who delivered it to the rings. The GOE promised to reimburse private buyers for the deficiency payment.

### **3.1.2 The Response of Traders and Farmers to the Seed Cotton Marketing Framework**

Most private firms refused to participate in buying seed cotton unless the GOE clearly specified how and when traders would be reimbursed for paying high seed cotton prices that included a substantial deficiency payment. During August 1997 meetings in Alexandria, the Cotton and International Trade Holding Company, representing the GOE, and prospective seed cotton buyers discussed the possible participation of the private sector during the seed cotton marketing season 1997/98. By the end of these discussions, the private sector withdrew from seed cotton buying, except for three companies—Modern Nile, Arabia Ginning Company, and Arab Trade & Investment Company—who received promises that they would be reimbursed for their outlay on deficiency payments as soon as possible. Other private companies were skeptical that the GOE could deliver on these promises.

The private sector also complained about the required advance payment for participation in the seed cotton market, which was applied to private companies only. The GOE changed this requirement from a cash deposit to a bank letter of guarantee covering 10% of the estimated value of the cotton crop delivered to each ring (based on production estimates and the floor prices).<sup>15</sup> Both private and public participants buying in the sales rings had to pay farmers 80% of the seed cotton price upon delivery and settle the balance after two to four weeks, following ginning, grading of the lint cotton, and PBDAC accounting (deductions for production loans).

The private sector companies that participated in cotton trading in 1997/98 had not yet been reimbursed for the deficiency payment, although they have delivered the required documents, as of late 1999. In order to obtain credit from the banks for the 1998/99 marketing season, these

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<sup>15</sup> Getting a bank to issue a letter of guarantee requires that the company have an equivalent amount of cash in an account at that bank. The advantage for the private company is that PBDAC does not hold the cash, and the private firm might be able to get the bank to waive the requirement that the full equivalent amount of cash be held, in effect in escrow, at the bank, depending upon that company's relationship with the bank.

private companies asked the Prime Minister for a letter guaranteeing that they would eventually be repaid for their outlays on the deficiency payments.<sup>16</sup>

Due to a combination of factors — the floor price system, the absence of a clear mechanism for reimbursing deficiency payments, and the 10% advance payment plus the sales rings allocation system, most private traders elected not to bid on sales rings and not to buy seed cotton from farmers in 1997/98. Only three large private companies were able to participate in the cotton trade, buying at 15 PBDAC rings, and at some gins (owned by Arab Ginning). These three companies bought only 6.5 percent of the total seed cotton crop that was delivered to the gins in 1997/98.<sup>17</sup> The GOE intended to involve the private sector in the cotton trade, but the way in which Decree 931 was implemented limited private sector participation in 1997/98.

Because of the deficiency payment scheme, private companies that bought seed cotton did not negotiate prices freely with farmers. Seed cotton floor prices were set at levels above the lint equivalent world prices, requiring the traders to cover the difference in the form of a deficiency payment. Growers received the high support price, adjusted for grade and ginning out-turn, and after PBDAC subtracted money to cover GOE pest control treatment costs and any (PBDAC) loans for other production inputs.

### **3.1.3 Small Traders' Buying Practices in 1997/98**

The 1998 survey of seed cotton traders showed that only 20 of 74 sample traders bought seed cotton in 1997/98, and that they were concentrated in two governorates (7 in Menoufia, where Giza 75 and 89 were grown, and 6 in Beni Suef, where Giza 80 was produced). As shown in Tables 3-2 and 3-3, all 20 participating traders bought directly from farmers, and 13 of 20 delivered at least some of their seed cotton to public sector companies. Interestingly, however, sample traders reported selling nearly twice as much seed cotton to private sector buyers than to public trading companies (see Table 3-11).

Sample traders bought 50,700 kentars of seed cotton in 1997/98, only 26.3 percent of the total quantity they purchased in 1998/99. One large cotton buyer in Dakhalia bought 30,000 seed kentars or 60 percent of the total. Omitting this case, the remaining 19 sample traders bought 20,700 kentars (see Table 3-10) or an average of only 1089 seed kentars per buyer. They sold 32.7 percent of their seed cotton to public cotton trading companies, 5.8 percent to public ginners, and 61.5 percent to private companies. Although it is not clear how small private traders

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<sup>16</sup> The Prime Minister wrote a letter that explained to the government banks that the GOE owed money to the three private companies, equivalent to the deficiency payments plus accumulated interest (beyond December 31, 1997) on loans. This was not a guarantee that the GOE would pay the banks the debt, but it appears to have satisfied the banks, who provided new loans to the 3 companies.

<sup>17</sup> MVE's estimate of 6.5%, based on interviews and CIT-HC figures, is slightly higher than the 5.1% estimate of the private sector share obtained from CATGO and published in Ender et al. (1999), *A Baseline of APRP Progress Indicators, 1990-1997*, MVE Unit Monitoring Report No. 2. The CATGO figures were not disaggregated by company and hence cannot be easily cross-checked against what individual companies report as their deliveries. Note that the private sector share estimate of 28.1% (MVE) is quite a bit higher than final CATGO estimate of 19.6%.

were able to operate profitably in 1997/98, with the deficiency payment system in place, they probably bought seed cotton at a substantial discount from farmers who were eager to sell fast without incurring transport and transaction costs.

The 54 non-participating sample traders explained their non-participation during 1997/98 as due to a too high floor price for seed cotton (26 of 54), the absence of large buyers to whom they could sell (8), their perception that private traders were not allowed to buy seed cotton in 1997/98 (17), and their working as buyers or commission agents for a trader or cooperative (20).<sup>18</sup>

### **3.1.4 Farmers' Seed Cotton Deliveries and Prices Received, 1997/98**

According to MVE's November 1997 survey of 296 producers who delivered seed cotton to PBDAC-run sales rings in 1997/98, only two sample farmers sold a very small quantity of seed cotton—0.3 percent of the total—to buyers outside of sales rings. As shown in Table 3-4, sample producers cultivated an average of 2.42 feddans, or 41.3 percent of their total cultivated area, to cotton. Yields averaged 5.6 seed kentars per feddan, and deliveries to the PBDAC sales rings averaged 14.3 kentars. Yields ranged from a low of 3.6 seed kentars per feddan for Giza 45 to 6.6 and 6.5 seed kentars per feddan for Giza 70 and Giza 86 respectively.

During the 1997/98 marketing season, MVE obtained producer prices from PBDAC managers and producers at PBDAC-run sales rings. These prices, reported in Table 3-5, show that producers in sample Delta governorates reported receiving slightly higher prices than the official prices for all varieties except Giza 85 during 1997/98. In sample governorates in Upper Egypt, producers reported receiving 11-16 percent less than the official prices for Gizas 80 and 83. The disparities are probably due to grade differences; Delta producers (in the sample) likely received higher grades (or out-turn ratios) than the benchmark Good/Fully Good, while Upper Egyptian producers fell short of the benchmark. It is also interesting to note (from Table 3-4) that producers reported receiving higher average prices than PBDAC ring directors reported that they received on average, with the exception of Giza 80 in Sohag. The difference ranged from less than one percent for Giza 86 in Dakhliya to greater than 10 percent for Giza 85 in Sharkia. The reason for this disparity is not clear.

Sample traders interviewed during the 1998 MVE survey reported buying prices for seed cotton in only 22 cases for 1997/98, as shown in Table 3-6. They received 10 to 21 percent lower prices than the support price, because nearly all of their seed cotton did not achieve the grade (G/FG) or out-turn ratio necessary to receive the full support price. Although these discounts relative to

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<sup>18</sup> Some of the 54 sample traders who did not buy seed cotton for their own account during the 1997/98 marketing season gave more than one reason why. The fact that 17 of 54, or 31%, stated that private traders were not allowed to participate is a significant finding, considering liberalization of seed cotton marketing had been underway for three years by 1997/98.

**Table 3-2 : Number of Traders Buying Seed Cotton, by Seller Type, 1994/95 - 1998/99**

Year	Farmers		Traders		Co-operatives		Other		Total Cases	# Participating Traders
	No.	%	No.	%	No.	%	No.	%		
<b>1994/95</b>	42	93.3%	3	6.7%	0	0.0%	0	0.0%	45	45
<b>1995/96</b>	58	100.0%	1	1.7%	0	0.0%	0	0.0%	59	58
<b>1996/97</b>	16	100.0%	0	0.0%	0	0.0%	0	0.0%	16	16
<b>1997/98</b>	20	100.0%	0	0.0%	0	0.0%	0	0.0%	20	20
<b>1998/99</b>	63	94.0%	8	11.9%	0	0.0%	1	1.5%	72	67

Source: MVE survey of 74 seed cotton traders.

Note: The percentage of traders buying from a particular source is calculated by dividing the number in each column by the number of total participating traders. Summing the percentages will yield a number that is greater than or equal to 100%, due to multiple responses.

**Table 3-3 : Number of Traders Selling Seed Cotton, by Buyer Type, 1994/95 - 1998/99**

Year	Public Trading Comp.		Private Trading Co.		Public Gin		Private Gin		Direct Export		Total Cases	# Participating Traders
	No.	%	No.	%	No.	%	No.	%	No.	%		
<b>1994/95</b>	24	53.3%	23	51.1%	2	4.4%	1	2.2%	0	0.0%	50	45
<b>1995/96</b>	30	51.7%	32	55.2%	3	5.2%	1	1.7%	1	1.7%	67	58
<b>1996/97</b>	9	56.2%	6	37.5%	1	6.2%	1	6.2%	1	6.2%	18	16
<b>1997/98</b>	13	65.0%	7	35.0%	1	5.0%	1	5.0%	0	0.0%	22	20
<b>1998/99</b>	18	26.9%	47	70.1%	0	0.0%	5	7.5%	1	0.0%	71	67

Source : MVE survey of 74 seed cotton traders.

The percentage of traders buying from a particular source is calculated by dividing the number in each column by the number of participating traders in that year. Summing the percentages leads to a number that is greater than 100%, because a few traders bought from multiple sources.



the floor price were legitimate and defensible, they led producers to perceive that prices and returns were lower in 1997/98 relative to the golden era of 1995/96 and 1996/97. Furthermore, sample traders bought their seed cotton outside the PBDAC sales rings and delivered it to the rings. As rural assemblers of seed cotton, these traders had to receive some compensation for their services, which further reduced returns to producers relative to the high support prices.

Nevertheless, farmers had the correct impression that cotton prices were indeed lower in 1997/98 than they were in 1996/97 (and 1995/96) and grumbled about rising input costs (and land rents).

Farmers also were not certain what prices they would receive for their seed cotton delivered to the PBDAC-run sales rings, because they received 80 percent of the floor price at the time of delivery and some balance later (not equal to the additional 20 percent), adjusted for the lint cotton grade, ginning out-turn and payments to PBDAC for inputs extended on credit and GOE cotton spraying.

### **3.2 Seed Cotton Marketing in 1998/99**

The November 1998 MVE survey of seed cotton traders showed that 67 out of 74 sample traders participated in seed cotton buying in 1998/99. This is an encouraging finding and evidence of broad participation.

#### **3.2.1 GOE Framework for Seed Cotton Marketing in 1998/99**

The fact that the Government did not announce floor prices for seed cotton before the 1998/99 season represented a significant step forward. The Government also discontinued the deficiency payment program, which had limited private sector participation in 1997/98. This was because producer floor prices had been set above world market prices (adjusting the producer seed cotton price for marketing and ginning costs and out-turn to arrive at lint equivalent prices).

On 10 August 1998, Ministers Wally, Goueli and Ebeid issued a joint Ministerial Decree (No. 1048 of 1998) concerning the *optional system of domestic marketing of cotton in 1998/99* that set the framework for the 1998/99 cotton marketing season. First, the decree established seed cotton sales rings, operated by PBDAC, to serve as points where farmers could sell to buyers, either public or private trading (or ginning) companies, at prices based on ALCOTEXA export prices. Second, the decree stated that CATGO and the Cotton and International Trade Holding Company (CIT-HC) would prepare detailed price tables based on the ALCOTEXA export prices and announce the seed cotton prices at the sales rings. Third, the decree implicitly allowed producers to sell their seed cotton freely to the highest bidder (and, by implication, outside the sales rings).

Prices offered at the sales rings for seed cotton, where Government remained the buyer of last resort, were directly linked to the export prices announced at the beginning of the marketing season, in late August 1998, by ALCOTEXA. ALCOTEXA did not change any of its lint cotton export prices until mid-December 1998, at which point 93 percent of Egypt's export

**Table 3-4: Sample Farmers' Cotton Area and Production Delivered to Sales Rings, 1997/98**

Location	Governorate	No. of Observations	% Total Observ.	Avg. Owned Area	Average Leased Area	Average Cotton Area	Average Yield (S. K./Feddan)	Total Quantities Delivered to Sales Rings (S. K.)	Average Quantity Delivered per Farmer (S. K.)
<i>Lower Egypt</i>	Beheira	48	16.2	4.88	0.18	1.96	6.6	622.4	13.0
	Dakahlia	48	16.2	4.80	0.48	2.84	6.4	878.1	18.3
	Damietta	12	4.1	4.24	0.08	2.82	3.6	121.7	10.1
	Kafr El Sheikh	48	16.2	7.27	0.10	2.32	5.0	550.1	11.5
	Sharkia	42	14.2	3.33	0.00	1.64	5.7	389.8	9.3
<b>Sub-Total or Average</b>		<b>198</b>	<b>66.9</b>	<b>5.07</b>	<b>0.19</b>	<b>2.24</b>	<b>5.4</b>	<b>2562.1</b>	<b>12.9</b>
<i>Middle &amp; Upper Egypt</i>	Assuit	48	16.2	4.61	0.20	2.48	6.4	756.0	15.7
	Beni-Suef	42	14.2	10.33	0.00	3.20	6.1	825.4	19.7
	Sohag	8	2.7	3.36	0.03	2.35	5.0	93.5	11.7
<b>Sub-Total or Average</b>		<b>98</b>	<b>33.1</b>	<b>6.98</b>	<b>0.10</b>	<b>2.80</b>	<b>5.9</b>	<b>1674.9</b>	<b>17.1</b>
<b>Grand Total/Average</b>		<b>296</b>	<b>100.0</b>	<b>5.70</b>	<b>0.16</b>	<b>2.42</b>	<b>5.6</b>	<b>4237.0</b>	<b>14.3</b>

Source: Computed from MVE sample data obtained in a producer survey at PBDAC sales rings, November 1997.

Note: 11 seed kentars (5 in Dakahlia; 6 in Kafr El Sheikh) sold by sample farmers were not delivered to PBDAC sales rings.

**Table 3-5: Average Quantities and Reported Prices for Seed Cotton Delivered to Sales Rings, 1997/98**

Governorate Location	Governorates	Variety Giza	Weekly Avg. Deliveries of Seed Cotton (Kentars)	Average Price Reported by Ring	Average Price Reported by Producers (LE/ Kentar)	Ratio of Producer Price to Ring Director	Official Farmgate Price (LE/Kentar)	Ratio of Producer Price to Official Price (%)
<i>Lower Egypt</i>	Beheira	70	593	Director 563 (LE/ Kentar)	570	Price (%) 101	565	101
	Dakahlia	86	776	505	506	100	500	101
	Damietta	45	279	1022	1047	102	1000	105
	Kafr El Sheikh	75	696	489	506	103	500	101
	Sharkia	85	271	435	481	111	500	96
	<i>Subtotal Average</i>		<b>575</b>					
<i>Middle and Upper Egypt</i>	Assuit	83	1080	382	390	102	440	89
	Beni Suef	80	727	366	371	101	440	84
	Sohag	80	494	390	386	99	440	88
	<i>Subtotal Average</i>		<b>865</b>	<b>376</b>	<b>382</b>			<b>87</b>
<b>All Egypt</b>			<b>674</b>					

Source: Surveys of PBDAC sales ring managers and producers at sales rings, November 1997.

**Table 3-6: Seed Cotton Prices Paid by Sample Traders to Farmers in 1997/98**

(LE per seed kantar)

Variety	No. Observations	Mean Price Paid by Sample Traders	Official Price	Percentage Difference with Official Price
Giza 70	3	477	555	-14.1%
Giza 75	9	447	500	-10.6%
Giza 80	6	349	440	-20.7%
Giza 85	1	550	500	10.0%
Giza 86	3	437	500	-12.6%

Source: MVE survey of seed cotton traders, November 1998.

Note: The average prices paid by sample traders cover a variety of grades, generally below Good/Fully Good. The official price for 1997/98 was based on a higher grade, G/FG, and higher out-turn ratios than in previous years. Hence, the two sets of prices should be compared with caution.

commitments had been made. Hence, prices offered at the PBDAC-run sales rings remained essentially fixed for the entire seed cotton buying season following the 1998 cotton harvest.<sup>19</sup>

CATGO and the CIT-HC derived seed cotton purchase prices, which were applied by both public trading and ginning companies and private buyers at the PBDAC sales rings, from the opening ALCOTEXA export prices during the 1998/99 marketing season. Elaborate tables were developed for each variety, and the price differential between grades was fixed at LE 6/grade for each variety, regardless of the varieties' relative value in the world market, or the market value of grade differentials. The prices in the CATGO/CIT-HC tables reflected a fixed marketing margin of LE 55 per seed cotton kantar and varied by ginning out-turn ratio, which varied by cotton variety, by week and by lot (with CATGO doing the grading).

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<sup>19</sup> Most observers note that ALCOTEXA did a better job in setting 1998/99 opening prices for Egyptian cotton lint exports that reflected world market conditions, with the exception of ELS varieties, than it had done at the beginning of the previous two seasons. ALCOTEXA did not change the opening prices for the long staple varieties Gizas 75, 85, 86 and 89 until 13 December 1998, at which point it raised them by two cents per lb. As of 27 December 1998, ALCOTEXA lowered the minimum exportable grade for the ELS varieties Gizas 70, 76, 77, and 88 (and LS variety Giza 87) from Good +  $\frac{1}{2}$  to Good +  $\frac{1}{4}$ , as well as the price per grade. This lowered ELS export prices 4-6 cents/lb. for these varieties. As of 16 May 1999, prices for lower grades of Giza 70 (below the grade of Good/Fully Good) were lowered a further 1.5-5 cents/lb., which was anticipated to help move some of the large stocks of this benchmark ELS variety. Export commitments for Giza 70 did increase from 10,464 mt, as of 15 May 1999, to 15,196 mt, as of 4 September 1999. Actual shipments, as of 4 September 1999, were 13,511 mt for Giza 70. There were some additional sales due to the mid-May drop in Giza 70 prices, but not a large volume. Exporters report that this was due more to the cancellation of Giza 86 contracts, given the more favorable relative price of Giza 70. In other words, the net change in export volume was nil.

### 3.2.2 The Response of Traders and Farmers to the New Seed Cotton Marketing Framework

Twenty-five of the 67 sample traders reported working as a commission agent or buyer for another (generally larger) cotton trader or ginner, while 42 worked for their own account. Fifteen of the former 25 had formal contracts with other traders. All but one of the 67 traders bought only one variety of seed cotton in 1998/99, and none of the 20 traders who bought seed cotton in 1997/98 assembled more than one variety. The exception in 1998/99 was a trader in Menoufia, who bought both Giza 89 and 75.

MVE also found that 61 of the (responding) 66 sample traders (82.4%) who participated in the 1998/99 marketing season referred to the “price tables” prepared by CATGO and CIT-HC (see Table 3-7) in making offer prices to sellers. In referring to these price tables, only 9 traders followed them verbatim, while among traders who used the tables as a guideline, 48 (71.6%) paid less and 19 respondents (28.4%) paid more than the prices listed in the table.<sup>20</sup> Four traders, all in Sharkia, reported that they determined prices only after they had ginned the seed cotton and knew the out-turn ratio. This is a rational strategy for eliminating the risk of receiving a lower grade from CATGO graders than was estimated by the buyer or one of his agents outside of a sales ring.

When asked whether they negotiated prices with seed cotton sellers, the vast majority of sample traders (65 of 66) reported that they did negotiate prices. Furthermore, 61 of these 66 respondents reported that some sellers refused to accept their offer prices and that they were unable to buy any seed cotton from those sellers. The seeming paradox of most sample traders reporting negotiation over prices, while nearly as many say they use the official price tables at least as a guideline for making offers to sellers, is evidence that the Egyptian seed cotton market is in a transitional period during which elements of the old command economy and the new liberalized economy are juxtaposed.

Although most sample traders referred to the GOE price tables, 53 of 66 did not follow the price differentials between grades closely.<sup>21</sup> In other words, these private traders felt free to pay a larger premium for a higher grade, relative to the base grade of Good + 1/4, as well as a deeper discount for a lower grade of seed cotton. Furthermore, 40 of 66 traders (64%) concentrated on buying the better grades, while 26 respondents (39%) bought all grades of seed cotton. These developments are further evidence of an emerging free market system for seed cotton.

The public sector cotton trading and ginning companies, which bought 88.1 percent of their seed cotton at sales rings run by PBDAC, were instructed by the cotton holding companies to apply the price tables in purchasing all of their seed cotton, which amounted to 71.9 percent of the crop.

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<sup>20</sup> The disaggregated figures do not add up to 61 traders, because some of the traders who use the tables as a guideline both pay more and less than the amount listed for a particular cotton variety and grade in the prices table, depending on the market context.

<sup>21</sup> Note that the sample traders reported buying no seed cotton at PBDAC-run sales rings in 1998/99. This discussion concerns trader purchases outside PBDAC rings in villages and at trader-run rings.

As in 1997/98, each of the 892 sales rings run by PBDAC had only one buyer. The 11 private companies that bought seed cotton at PBDAC-run sales rings, which totaled 18.5 percent of the crop, also applied the price tables. Note that private companies made 51 percent of their purchases (575,047 of 1,127,843 seed cotton kentars) at PBDAC sales rings (see Table 3-8).<sup>22</sup>

### 3.2.3 Increased Private Sector Participation in Seed Cotton Buying

Despite continued *de facto* fixed pricing at the PBDAC-run sales rings, private trader participation was significantly higher in 1998/99 than in 1997/98, as the MVE survey showed. In addition to the 74 sample cotton buyers, MVE identified another 28 traders operating in three of the five sample governorates — Beheira (3), Menoufia (12), and Beni-Suef (13). In interviews with large private trader/exporters, several company managers estimated that there were over one hundred seed cotton buyers based in cotton-producing governorates.

CIT HC data show that 11 private trading companies delivered 28.1 percent of the seed cotton crop in 1998/99 to the gins, a vast improvement over 1997/98, when only three companies delivered a modest 6.5 percent of the crop.<sup>23</sup> Table 3-8 shows seed cotton deliveries to gins by both public and private companies, by source of supply. The 11 principal private traders obtained 51.0 percent of their seed cotton from PBDAC-run sales rings, 27.7 percent from cooperatives, 16.9 percent through traders, brokers and producers, and 4.4 percent at the gins.

MVE<sup>24</sup> also discovered that the number of officially registered cotton traders had declined from early 1997 to early 1999 through cancellations of traders who most likely had been discouraged by limited private sector participation in 1996/97 and 1997/98 and who no longer planned on buying seed cotton. As of January 1999, 138 of the 197 registered traders who had registered from 1994 through 1998 were still registered, while 59 traders had canceled their registrations (see Annex 1).<sup>25</sup> Note that 29 registered traders were public companies and 15 were cooperatives. The 94 remaining private traders or trading companies (60 companies, 34 individuals) comprised 68.1 percent of the total 138 registered traders in January 1999. This

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<sup>22</sup> If EMIPAC is considered a quasi-public company and eliminated from the list of private companies, their purchases at PBDAC rings drop to 451,612 seed kentars.

<sup>23</sup> Note that one private trading company, EMIPAC, only bought certified seed on behalf of MALR and had the exclusive right to the lint cotton from this (certified) seed cotton. Note also that the 28.1% estimate of private share is provisional. MVE was unable to obtain final seed cotton delivery figures from CIT-HC for 1998/99.

<sup>24</sup> MVE obtained the data about trader registrations from the CIT-HC. Krenz obtained these data from MVE and reported them in *Liberalization of Cotton Marketing in Egypt: The Situation in the 1998/99 Season* (May, 1999).

<sup>25</sup> Registered traders are required to pay a refundable deposit of LE 3,000. The annual, non-refundable fee is LE 500 per registered trading company.

**Table 3-7: How Sample Traders Determined Offer Prices, 1998/99**

Governorate	Sample	Followed Price Tables Exactly		Used Price Tables as a Guideline				Did Not Refer to Price Tables		Paid After Knew Out-Turn Ratio	
				Paid Less		Paid More					
		N	%	N	%	N	%	N	%	N	%
Beheira	11	5	45.5	3	27.3	2	18.2	1	9.1	0	0.0
Dakahlia	15	0	0.0	9	60.0	8	53.3	0	0.0	0	0.0
Sharkia	14	1	7.1	9	64.3	2	14.3	0	0.0	4	28.6
Menoufia	11	1	9.1	11	100.0	1	9.1	7	63.6	0	0.0
Beni-Suef	8	2	25.0	8	100.0	6	75.0	0	0.0	0	0.0
Fayoum	8	0	0.0	8	100.0	0	0.0	5	62.5	0	0.0
Total	67	9	13.4	48	71.6	19	28.4	13	19.4	4	6.0

Source: MVE survey of 74 seed cotton trader.

Note: The last columns refer to cases where traders had seed cotton ginned in order to determine the out-turn ratio. With this information, they were better able to price seed cotton.

**Table 3-8: Seed Cotton Deliveries to the Gins by Company, 1998/99**

Where/from Whom procured Company	PBDAC Sales Rings	Traders, Brokers, Producers	Gins	Coops	Total Deliveries to Gins	Percentage of Private/Public	Percentage of Total
<b>Public Trading Companies</b>	<b>2,211,237</b>	<b>0</b>	<b>0</b>	<b>341,730</b>	<b>2,552,967</b>	<b>88.6%</b>	<b>63.7%</b>
Misr Export	348,208			50,478	398,686	13.8%	9.9%
Alexandria Commercial	374,767			52,312	427,079	14.8%	10.6%
Al Kahira	394,588			66,874	461,462	16.0%	11.5%
Alcotan	354,196			52,787	406,983	14.1%	10.1%
Eastern	353,879			45,294	399,173	13.8%	10.0%
Port Said	385,599			73,985	459,584	15.9%	11.5%
<b>Public Ginning Companies</b>	<b>329,587</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>329,587</b>	<b>11.4%</b>	<b>8.2%</b>
Delta Ginning	105,802				105,802	3.7%	2.6%
Misr Ginning	107,535				107,535	3.7%	2.7%
El Wadi Ginning	116,250				116,250	4.0%	2.9%
<b>Total of Public Companies</b>	<b>2,540,824</b>	<b>0</b>	<b>0</b>	<b>341,730</b>	<b>2,882,554</b>	<b>100.0%</b>	<b>71.9%</b>
<b>Percentage of Public Sector Deliveries</b>	<b>88.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>11.9%</b>	<b>100.0%</b>		
<b>Private Trading &amp; Ginning Companies</b>	<b>575,047</b>	<b>190,085</b>	<b>50,000</b>	<b>312,711</b>	<b>1,127,843</b>	<b>100.0%</b>	<b>28.1%</b>
<b>Percentage of Private Sector Deliveries</b>	<b>51.0%</b>	<b>16.9%</b>	<b>4.4%</b>	<b>27.7%</b>	<b>100.0%</b>		
Modern Nile & Arabia Ginning	248,590	29,054	49,350	282,711	609,705	54.1%	15.2%
Nile Cotton Ginning Company	108,221	3,161			111,382	9.9%	2.8%
Nassco Trading Company	34,607	1,636			36,243	3.2%	0.9%
ATICOT (Dabbah)	24,563	16,017		30,000	70,580	6.3%	1.8%
EL Mabrouk Cotton Company	18,573	7,030			25,603	2.3%	0.6%
Tanta Cotton Trading Company	10,377	81,021			91,398	8.1%	2.3%
Attar (Banha)	6,681	2,973			9,654	0.9%	0.2%
Nefertiti for Trading and Cotton Export	0	17,500	650		18,150	1.6%	0.5%
El Watany Cotton & Agric. Development Comp.	0	31,693			31,693	2.8%	0.8%
El Bostania (EMIPAC)	123,435	0	0	0	123,435	10.9%	3.1%
<b>GRAND TOTAL</b>	<b>3,115,871</b>	<b>190,085</b>	<b>50,000</b>	<b>654,441</b>	<b>4,010,397</b>		
<b>Percentage of Total</b>	<b>77.7%</b>	<b>4.7%</b>	<b>1.2%</b>	<b>16.3%</b>	<b>100.0%</b>		<b>100.0%</b>

Source: CIT-HC and PBDAC, as reported in Krenz (1999). These data are not the final data for the 1998/99 ginning season, but they are close to final. They were obtained in February 1999.

Note: EMIPAC had an exclusive contract to buy all of the lint grown by growers of certified cotton planting seed. EMIPAC delivered 123,435 seed cotton kentars to the gins.



decrease to 94 private traders represented a 21 percent decline from the 119 registered traders in April 1997, when private traders comprised 73.5 percent of the total of 162 registered traders.

Traders' seed cotton purchases by source of supply are detailed for the past five years in Table 3-9. For 1998/99, 77.7 percent of the sample traders' purchases were made at the farmgate or in villages, while 22.3 percent were made at traders' own sales rings. The proportions of total seed cotton purchases from farmers at the village level by sample traders were actually higher in 1996/97 (90%) and 1997/98 (89%).

It is also interesting to note that sample traders bought 92.5 percent of their seed cotton directly from farmers in 1998/99, slightly below the 100 percent procured from farmers in 1996/97 and 1997/98 (see Table 3-10). In contrast, 6.9 percent of all the seed cotton bought by sample traders was purchased from other traders in 1998/99—a higher proportion than in the earlier years. Sample trader purchases from other traders comprised a significant proportion of total purchases in Fayoum (21.9%).<sup>26</sup> As in the previous two years, all or nearly all of the sample traders in Sharkia, Menoufia, Beni-Suef and Beheira purchased their seed cotton from farmers in 1998/99.

Sample traders sold their seed cotton to several different buyer types. Twenty of 67 traders (27.0%) sold only to private trading companies, while fifteen (20.3%) sold only to public traders (13) or public ginners (2). Hence, nearly half (47.3%) of the sample traders sold to only one buyer type. Another 28 traders sold to both public and private trading companies, while the remaining respondents sold to three or more buyer types. An important finding from these breakdowns is that 57 of the sample traders sold at least some of their seed cotton to a private trading company or ginner.

Breaking out sample traders' sales of seed cotton in volume terms reveals, as shown in Table 3-11, that 47 of 66 reporting traders sold 90.8 percent of the total volume of seed cotton (of 93,732 seed kentars) to private trading companies and five traders sold 0.9 percent of the total to private ginners. The rest of the seed cotton (7.7 percent) was sold to public companies by 17 sample traders.<sup>27</sup>

### **3.2.4 Traders' Buying Practices in 1998/99**

Traders' first decision regarding offer prices was to determine the grade of the seed cotton offered by a farmer or small trader. 54 of 66 sample traders (81.8%) who bought seed cotton in 1998/99 determined the grade themselves. After the grade was determined, traders made offers to sellers.

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<sup>26</sup> Note that one trader in Dakhalia alone purchased 100,000 seed cotton kentars, or 51.6 percent of the total amount of seed cotton (193,372 seed kentars) bought by sample traders in 1998/99. This trader's purchases have been netted out of Table 3-9, 3-10 and 3-11, because this trader is an ALCOTEXA member who operates on a far larger scale than the other sample traders.

<sup>27</sup> The Dakhalia-based trader mentioned earlier stated he sold 100,000 of 107,250 seed kentars, reported by all 67 traders (where the expanded total is 193,732 kentars), to large public trading companies. This case has been eliminated from Table 3-11, as it biases the results.

The CATGO/CIT-HC price tables for seed cotton provided a base against which traders could make pricing decisions. As discussed earlier, the MVE survey included a series of questions about whether sample traders referred to these price tables; results are shown in Table 3-7. Of the 66 reporting sample traders who bought seed cotton in 1998/99, nine (13.6%) reported following the GOE price tables exactly. Five of these nine traders are based in Beheira. None of the sample traders in Dakhalia or Fayoum said that they followed the price tables verbatim.

Forty-eight of 66 traders (72.7%) stated that they followed the price tables yet paid somewhat less than the listed prices. All of the sample traders in Menoufia, Beni-Suef and Fayoum reported following this pricing practice. Nearly all of the traders (97.0%) thought that the reason farmers accepted lower prices for their seed cotton was that they needed cash right away. Although PBDAC has improved in paying farmers more promptly for their seed cotton delivered to sales rings, producers must wait several days for ginning out-turn tests and PBDAC processing to receive final payment (see Krenz, 1999 for a discussion of minor delays in PBDAC payment of producers). In addition to desiring rapid payment in return for accepting lower prices than prices offered at sales rings, traders thought that producers did not want to waste time and money going to sales rings (n=15), producers did not want PBDAC to deduct money from payments to recover loan costs (n=36), and producers had varied other reasons (n=13).

Nineteen of 66 sample traders claimed that they used the price tables as a guideline but paid somewhat more for seed cotton. More than half of the traders in Dakhalia (8 of 15) and Beni-Suef (6 of 8) paid more than the CATGO/CIT-HC prices. Last, 13 sample traders (19.7%) reported negotiating prices with sellers without reference to the price tables. Of these 13 traders, 7 were found in Menoufia (7 of 11) and 5 (of 8) in Fayoum.<sup>28</sup> In general, 56 traders (84.8%) who did not follow the price tables closely in 1998/99 said that they knew what prices to offer based on their experience in the seed cotton trade. Note that four traders took seed cotton to the gin to determine the out-turn ratio and final grade, which helped to inform their offer prices.

Whether traders referred to the price tables or not, they reported negotiating prices with sellers (63 of 66 cases). This practice is probably more satisfactory to both buyers and sellers in a culture where bargaining is an art form and enjoyed by those who practice it. Negotiating over prices did not always lead to a sale of seed cotton; in fact, 61 of 66 traders (92.4%) stated that some producers refused to sell, resulting in uncompleted transactions.

### **3.2.5 Seed Cotton Prices Received by Farmers**

In most cotton-producing governorates, traders paid prices at the farmgate that were closely related to the CATGO/CIT-HC price tables (less transport costs, profit, and a discount for cash payment). Yet in some governorates, there were a few cases where traders offered prices higher than the prices of the price tables used at PBDAC sales rings for particular varieties both at the farmgate and at private sales rings. This reflected the greater demand for certain long staple varieties relative to supply—notably Giza 86 and Giza 85. In these cases, the price paid by traders was not tightly linked to the price tables. This is a positive development that shows that

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<sup>28</sup> Six sample traders reported using another means to set offer prices. Four of these were based in Sharkia.

**Table 3-9 : Sample Traders' Seed Cotton Purchases, by Buying Location**

(seed cotton kentars)

Governorate	Cooperative Collection Centers	%	Own Sales Ring	%	Farmers in Own Village	%	Other Villages	%	Total	%
<b>1994/95</b>										
Beheira	0	0.0	0	0.0	610,600	100.0	0	0.0	610,600	100.0
Dakahlia	0	0.0	2,570	28.1	6,592	71.9	0	0.0	9,162	100.0
Sharkia	250,000	96.1	1,800	0.7	7,404	2.8	1,000	0.4	260,204	100.0
Menoufeya	0	0.0	0	0.0	14,650	100.0	0	0.0	14,650	100.0
Beni-Suef	0	0.0	0	0.0	11,550	73.3	4,200	26.7	15,750	100.0
Fayoum	72,000	62.9	4,000	3.5	35,400	30.9	3,000	2.6	114,400	100.0
<b>Total</b>	<b>322,000</b>	<b>31.4</b>	<b>8,370</b>	<b>0.8</b>	<b>686,196</b>	<b>67.0</b>	<b>8,200</b>	<b>0.8</b>	<b>1,024,766</b>	<b>100.0</b>
<b>1995/96</b>									0	
Beheira	0	0.0	0	0.0	63,340	100.0	0	0.0	63,340	100.0
Dakahlia	0	0.0	2,404	11.1	19,170	88.9	0	0.0	21,574	100.0
Sharkia	71,133	89.7	2,000	2.5	6,135	7.7	0	0.0	79,268	100.0
Menoufeya	0	0.0	0	0.0	4,980	100.0	0	0.0	4,980	100.0
Beni-Suef	0	0.0	0	0.0	17,300	90.6	1,800	9.4	19,100	100.0
Fayoum	200,000	88.8	2,000	0.9	23,200	10.3	0	0.0	225,200	100.0
<b>Total</b>	<b>271,133</b>	<b>65.6</b>	<b>6,404</b>	<b>1.5</b>	<b>134,125</b>	<b>32.4</b>	<b>1,800</b>	<b>0.4</b>	<b>413,462</b>	<b>100.0</b>
<b>1996/97</b>									0	
Beheira	0	0.0	0	0.0	200	100.0	0	0.0	200	100.0
Dakahlia	0	0.0	0	0.0	4,850	100.0	0	0.0	4,850	100.0
Sharkia	0	0.0	0	0.0	200	100.0	0	0.0	200	100.0
Menoufeya	0	0.0	0	0.0	1,380	100.0	0	0.0	1,380	100.0
Beni-Suef	0	0.0	0	0.0	11,450	85.1	2,000	14.9	13,450	100.0
Fayoum	0.00	0.00	0.00	0.00	0.00	0.00	0	0.00	0	0.00
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>18,080</b>	<b>90.0</b>	<b>2,000</b>	<b>10.0</b>	<b>20,080</b>	<b>100.0</b>
<b>1997/98</b>									0	
Beheira	0	0.0	0	0.0	450	100.0	0	0.0	450	100.0
Dakahlia	0	0.0	0	0.0	3,600	100.0	0	0.0	3,600	100.0
Sharkia	0	0.0	0	0.0	120	100.0	0	0.0	120	100.0
Menoufeya	0	0.0	0	0.0	1,830	100.0	0	0.0	1,830	100.0
Beni-Suef	0	0.0	0	0.0	12,400	84.4	2,300	15.6	14,700	100.0
Fayoum	0.00	0.00	0.00	0.00	0.00	0.00	0	0.00	0	0.00
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>18,400</b>	<b>88.9</b>	<b>2,300</b>	<b>11.1</b>	<b>20,700</b>	<b>100.0</b>
<b>1998/99</b>									0	
Beheira	0	0.0	0	0.0	2,930	100.0	0	0.0	2,930	100.0
Dakahlia	0	0.0	0	0.0	17,650	100.0	0	0.0	17,650	100.0
Sharkia	0	0.0	15,360	76.0	4,859	24.0	0	0.0	20,219	100.0
Menoufeya	0	0.0	0	0.0	8,600	100.0	0	0.0	8,600	100.0
Beni-Suef	0	0.0	500	2.3	19,400	90.2	1,600	7.4	21,500	100.0
Fayoum	0	0.0	5,000	21.9	13,500	59.1	4,333	19.0	22,833	100.0
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>20,860</b>	<b>22.3</b>	<b>66,939</b>	<b>71.4</b>	<b>5,933</b>	<b>6.3</b>	<b>93,732</b>	<b>100.0</b>

Source: Calculated from the MVE cotton trader survey, November 1998.

Note: During the first two marketing seasons shown in this table, seed cotton was bought at cooperative collection centers, not PBDAC run sales rings. PBDAC took over the seed cotton receiving and assembly function in 1996/97.

Table 3-10: Sample Traders' Seed Cotton Purchases, by Seller Type

(seed cotton kentars)

Governorates	Farmers	%	Traders	%	Others	%	Total	%
<b>1994/95</b>								
Beheira	610,600	100.0	0	0.0	0	0.0	610,600	100.0
Dakahlia	9,162	100.0	0	0.0	0	0.0	9,162	100.0
Sharkia	260,204	100.0	0	0.0	0	0.0	260,204	100.0
Menoufeya	14,650	100.0	0	0.0	0	0.0	14,650	100.0
Beni-Suef	15,750	100.0	0	0.0	0	0.0	15,750	100.0
Fayoum	98,300	85.9	14,600	12.8	1,500	1.3	114,400	100.0
<b>Total</b>	<b>1,008,666</b>	<b>98.4</b>	<b>14,600</b>	<b>1.4</b>	<b>1,500</b>	<b>0.1</b>	<b>1,024,766</b>	<b>100.0</b>
<b>1995/96</b>							<b>0</b>	
Beheira	63,340	100.0	0	0.0	0	0.0	63,340	100.0
Dakahlia	21,574	100.0	0	0.0	0	0.0	21,574	100.0
Sharkia	79,268	100.0	0	0.0	0	0.0	79,268	100.0
Menoufeya	4,980	100.0	0	0.0	0	0.0	4,980	100.0
Beni-Suef	19,100	100.0	0	0.0	0	0.0	19,100	100.0
Fayoum	214,200	95.1	11,000	4.9	0	0.0	225,200	100.0
<b>Total</b>	<b>402,462</b>	<b>97.3</b>	<b>11,000</b>	<b>2.7</b>	<b>0</b>	<b>0.0</b>	<b>413,462</b>	<b>100.0</b>
<b>1996/97</b>							<b>0</b>	
Beheira	200	100.0	0	0.0	0	0.0	200	100.0
Dakahlia	4,850	100.0	0	0.0	0	0.0	4,850	100.0
Sharkia	200	100.0	0	0.0	0	0.0	200	100.0
Menoufeya	1,380	100.0	0	0.0	0	0.0	1,380	100.0
Beni-Suef	13,450	100.0	0	0.0	0	0.0	13,450	100.0
Fayoum	0	0.00	0	0.00	0	0.00	0	0.00
<b>Total</b>	<b>20,080</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>20,080</b>	<b>100.0</b>
<b>1997/98</b>							<b>0</b>	
Beheira	450	100.0	0	0.0	0	0.0	450	100.0
Dakahlia	3,600	100.0	0	0.0	0	0.0	3,600	100.0
Sharkia	120	100.0	0	0.0	0	0.0	120	100.0
Menoufeya	1,830	100.0	0	0.0	0	0.0	1,830	100.0
Beni-Suef	14,700	100.0	0	0.0	0	0.0	14,700	100.0
Fayoum	0	0.00	0	0.00	0	0.00	0	0.00
<b>Total</b>	<b>20,700</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>20,700</b>	<b>100.0</b>
<b>1998/99</b>							<b>0</b>	
Beheira	2,430	82.9	0	0.0	500	17.1	2,930	100.0
Dakahlia	17,455	98.9	195	1.1	0	0.0	17,650	100.0
Sharkia	20,219	100.0	0	0.0	0	0.0	20,219	100.0
Menoufeya	8,600	100.0	0	0.0	0	0.0	8,600	100.0
Beni-Suef	20,200	94.0	1,300	6.0	0	0.0	21,500	100.0
Fayoum	17,833	78.1	5,000	21.9	0	0.0	22,833	100.0
<b>Total</b>	<b>86,737</b>	<b>92.5</b>	<b>6,495</b>	<b>6.9</b>	<b>500</b>	<b>0.5</b>	<b>93,732</b>	<b>100.0</b>

Source: Calculated from the MVE cotton trader survey, 1998.

Notes: 1) Others include purchases of 1,500 kentars from a cooperative in Fayoum in 1994/95, and 500 kentars that were purchased from a public company and exported by a Beheira trader in 1998/99.

2) The largest, Dakahlia-based trader is excluded from the sample in all five marketing seasons.

Table 3-11: Sample Traders' Seed Cotton Sales, by Buyer Type

(seed cotton kentars)

Gov.	Public Co. Total Volume	%	Private Co. Total Volume	%	Public Gin Total Volume	%	Private Gin Total Volume	%	Exports Total Volume	%	Total	%
<b>1994/95</b>												
Beheira	30,600	5.0	580,000	95.0	0	0.0	0	0.0	0	0.0	610,600	100.0
Dakahlia	6,842	74.7	320	3.5	2,000	21.8	0	0.0	0	0.0	9,162	100.0
Sharkia <sup>1</sup>	133,904	51.5	126,300	48.5	0	0.0	0	0.0	0	0.0	260,204	100.0
Menoufia	12,350	84.3	1,700	11.6	600	4.1	0	0.0	0	0.0	14,650	100.0
Beni-Suef	0	0.0	15,750	100.0	0	0.0	0	0.0	0	0.0	15,750	100.0
Favoum <sup>1</sup>	74,900	65.5	39,500	34.5	0	0.0	0	0.0	0	0.0	114,400	100.0
<b>Total</b>	<b>258,596</b>	<b>25.2</b>	<b>763,570</b>	<b>74.5</b>	<b>2,600</b>	<b>0.3</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>1,024,76</b>	<b>100.0</b>
<b>1995/96</b>												
Beheira	52,000	82.1	11,340	17.9	0	0.0	0	0.0	0	0.0	63,340	100.0
Dakahlia	11,404	52.9	8,170	37.9	2,000	0.1	0	0.0	0	0.0	21,574	100.0
Sharkia	5,610	7.1	73,658	92.9	0	0.0	0	0.0	0	0.0	79,268	100.0
Menoufia	4,080	81.9	500	10.0	400	0.1	0	0.0	0	0.0	4,980	100.0
Beni-Suef	2,700	14.1	15,000	78.5	1,400	0.1	0	0.0	0	0.0	19,100	100.0
Fayoum <sup>1</sup>	123,200	54.7	102,000	45.3	0	0.0	0	0.0	0	0.0	225,200	100.0
<b>Total</b>	<b>198,994</b>	<b>48.1</b>	<b>210,668</b>	<b>51.0</b>	<b>3,800</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>413,462</b>	<b>100.0</b>
<b>1996/97</b>												
Beheira	200	100.0	0	0.0	0	0.0	0	0.0	0	0.0	200	100.0
Dakahlia	4,550	93.8	300	6.2	0	0.0	0	0.0	0	0.0	4,850	100.0
Sharkia	0	0.0	200	100.0	0	0.0	0	0.0	0	0.0	200	100.0
Menoufia	1,180	85.5	200	14.5	0	0.0	0	0.0	0	0.0	1,380	100.0
Beni-Suef	3,450	25.7	9,000	66.9	1,000	7.4	0	0.0	0	0.0	13,450	100.0
Fayoum	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>9,380</b>	<b>46.7</b>	<b>9,700</b>	<b>48.3</b>	<b>1,000</b>	<b>5.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>20,080</b>	<b>100.0</b>
<b>1997/98</b>												
Beheira	240	53.3	210	46.7	0	0.0	0	0.0	0	0.0	450	100.0
Dakahlia	1,400	38.9	2,200	61.1	0	0.0	0	0.0	0	0.0	3,600	100.0
Sharkia	0	0.0	120	100.0	0	0.0	0	0.0	0	0.0	120	100.0
Menoufia	1,630	89.1	200	10.9	0	0.0	0	0.0	0	0.0	1,830	100.0
Beni-Suef	3,500	23.8	10,000	68.0	1,200	8.2	0	0.0	0	0.0	14,700	100.0
Fayoum	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>6,770</b>	<b>32.7</b>	<b>12,730</b>	<b>61.5</b>	<b>1,200</b>	<b>5.8</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>20,700</b>	<b>100.0</b>
<b>1998/99</b>												
Beheira	2,080	71.0	350	11.9	0	0.0	0	0.0	500	17.1	2,930	100.0
Dakahlia	0	0.0	17,000	96.3	0	0.0	650	3.7	0	0.0	17,650	100.0
Sharkia	320	1.6	19,689	97.4	0	0.0	210	1.0	0	0.0	20,219	100.0
Menoufia	2,850	33.1	5,750	66.9	0	0.0	0	0.0	0	0.0	8,600	100.0
Beni-Suef	0	0.0	21,500	100.0	0	0.0	0	0.0	0	0.0	21,500	100.0
Fayoum	2,000	8.8	20,833	91.2	0	0.0	0	0.0	0	0.0	22,833	100.0
<b>Total</b>	<b>7,250</b>	<b>7.7</b>	<b>85,122</b>	<b>90.8</b>	<b>0</b>	<b>0.0</b>	<b>860</b>	<b>0.9</b>	<b>500</b>	<b>0.5</b>	<b>93,732</b>	<b>100.0</b>

Source: Calculated from the cotton trader survey, 1998.

1) One Fayoum trader reported selling 72,000 kentars in 1994/95 and 200,000 kentars in 1995/96 of seed cotton to both public and private companies. These quantities were divided evenly between the two categories--public and private companies. The same applies to a Sharkia trader who sold 250,000 kentars to both public and private companies in 1994/95.

2) The large Dakahlia-based trader is excluded from the sample in calculating quantities sold to different buyers.

if seed cotton prices (based on ALCOTEXA's export prices) do not reflect underlying world market fundamentals, seed cotton prices paid to farmers will move toward levels prevailing on the international market and diverge from the CATGO/CIT-HC prices. There is now enough private sector participation in the market, as well as exporters' ability to discount export prices below ALCOTEXA prices, to ensure more competitive pricing. There remains a strong link with ALCOTEXA opening export prices, but this link appears to be weakening over time. This is another important step in the development of a competitive free market.

Examining seed cotton prices paid by sample traders *by buying location* shows that traders paid higher prices at the farmgate for Giza 86 than at sales rings, as Giza 86 was a sought-after export variety in 1998/99, for which buyers would pay a premium. The opposite is true for Giza 85, a very good long staple variety used largely for domestic spinning.<sup>29</sup> Traders paid farmers less for Giza 85 at the farmgate than at PBDAC rings, with the discount larger at lower grade levels (see Table 3-12). Traders also paid less for Giza 83 at the farmgate than at PBDAC sales rings (though there are fewer observations from which to draw a strong conclusion).

For the first time since the 1994/95 and 1995/96 seasons, cotton farmers had a choice as to where they delivered their seed cotton (public vs. private ring) or to whom and where they could sell their cotton, with the option of being able to sell to a private trader outside any ring. In a survey of 520 cotton growers in five governorates, designed by CSPP and MVE and implemented by MALR/CAAE, 80 farmers (15.4 percent) sold some or all of their seed cotton to private traders. Farmers who sold their cotton this way reported that they had essentially no marketing and transactions costs in selling to private traders and that they received full cash payment on the spot. Although payment delays have been reduced at PBDAC-run sales rings, farmers still report waiting a few days for the results of the ginning out-turn tests and their money. Nine of 80 farmers also observed that private traders paid better prices than buyers at PBDAC sales rings.<sup>30</sup>

Private buyers were able to offer either higher or lower prices to farmers outside the PBDAC-run sales rings and in the five privately run sales rings than could buyers at PBDAC sales rings. One trading company reported paying a significant premium for higher grade Giza 80. The private sector bought 51.0 percent of the total Giza 80 supply in 1998/99, which is surprising in that one would expect, *a priori*, that private traders would focus more on export varieties, while Giza 80

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<sup>29</sup> As of September 11, 1999, export shipments for Giza 85 had reached 2,415 mt, while those for Giza 86 were 46,472 mt. Export shipments attained 6,637 mt for Giza 89, 1,323 mt for Giza 80, 443 mt for Giza 83, and 13,537 mt for Giza 70.

<sup>30</sup> Krenz (1999) reports that average prices received by farmers from private traders were lower than prices paid at PBDAC sales rings for all varieties except Giza 85, where traders paid an average premium of LE 7.5 (or 2.2% more). Note, however, that the sales price data are not disaggregated by grade, which (along with, out-turn) is a determinant of the price paid to farmers so they should be treated with caution.

Table 3-12 : Seed Cotton Prices Paid by Sample Traders for Seed Cotton Compared to "Official" Prices and Prices Received by Farmers

(LE/seed kantar)

Variety	Grade	CIT-HC Price Table	Mean Price Paid by Sample Traders	No.	% Difference	Mean Price Received by Sample Farmers	No.	% Difference W/Sample Trader Price	% Difference W/Price Table
<b>Giza 70</b>	Fully Good	475.8	406.7	3	-14.5%				
	Good + 3/8	441.6	409.3	7	-7.3%				
	<b>Total</b>		<b>408.5</b>	<b>10</b>		<b>367.2</b>	<b>7</b>	<b>-10.1%</b>	
<b>Giza 86</b>	Fully Good	413.6	357.7	13	-13.5%				
	Good + 3/8	378.4	355.0	4	-6.2%				
	Good + 1/4	371.3	344.1	11	-7.3%				
	Good + 1/8	364.3	333.2	5	-8.5%	350.0	1		
	Good	357.2	313.5	13	-12.2%				
	Good - 1/8	350.2	259.0	7	-26.0%				
	Good - 1/4	343.1	266.7	3	-22.3%				
	<b>Total</b>		<b>325.2</b>	<b>56</b>		<b>293.9</b>	<b>19</b>	<b>-9.6%</b>	
<b>Giza 85</b>	Fully Good	378.4	337.2	12	-10.9%				
	Good + 3/8	343.3	332.2	11	-3.2%				
	Good + 1/4	336.1	322.5	10	-4.0%	340.0	1		
	Good + 1/8	329.0	310.9	11	-5.5%				
	Good	322.0	279.0	5	-13.4%	343.6	3		
	<b>Total</b>		<b>321.2</b>	<b>49</b>		<b>341.1</b>	<b>34</b>	<b>6.2%</b>	
<b>Giza 89</b>	Good + 3/8	344.5	331.4	7	-3.8%				
	Good - 1/8	317.1	317.5	2	0.1%				
	Good - 3/8	303.3	310.0	4	2.2%				
	<b>Total</b>		<b>322.7</b>	<b>13</b>		<b>330.3</b>	<b>4</b>	<b>2.4%</b>	
<b>Giza 80</b>	Fully Good	360.8	285.0	1	-21.0%				
	Good + 3/8	325.5	285.0	6	-12.4%				
	Good + 1/4	318.5	285.0	1	-10.5%				
	Good + 1/8	311.4	282.5	2	-9.3%	280.0	1		
	<b>Total</b>		<b>284.5</b>	<b>10</b>		<b>282.6</b>	<b>16</b>	<b>-0.7%</b>	
<b>Giza 83</b>	Fully Good	352.0	291.7	3	-17.1%				
	Good + 3/8	316.7	287.4	7	-9.2%				
	Good + 1/4	309.7	287.8	4	-7.1%				
	Good + 1/8	302.6	281.6	5	-6.9%				
	Good - 1/8	288.5	285.0	1	-1.2%				
	Good - 1/4	281.5	260.0	1	-7.6%				
	<b>Total</b>		<b>285.3</b>	<b>21</b>		<b>na</b>	<b>0</b>		

Sources : 1) CIT-HC price table from CATGO's monthly reports.

2) Mean price paid by sample traders from MVE survey of domestic cotton traders.

3) Mean price received by sample farmers from CSPP/MALR and MVE surveys of cotton producers.

is nearly all supplied to domestic spinners.<sup>31</sup> Some traders also reported paying premia for Giza 86 and Giza 85, where private traders bought 30.8 and 44.7 percent of the crops respectively. In sharp contrast, private traders delivered only 10.0 percent of the 1998 Giza 70 crop to the gins, as this ELS variety was plagued by a too high opening export price and large carryover stocks as of the end of the 1997/98 season. Private traders generally avoided ELS seed cotton, delivering only 10.4 percent to the gins, while they procured a higher proportion of LS cotton, 33.9 percent.

### **3.3 Comparing 1997/98 and 1998/99**

During 1996/97 and 1997/98, seed cotton procurement was not open and competitive. Public sector companies were assigned all of the sales rings in 1996/97, and they procured nearly all of the crop, not competing among themselves but accepting delivery of all the seed cotton to their rings, however poor the quality. The shares of each of the six public trading companies fell into the narrow range of 13.6-14.8 percent each, evidence of administrative allocation of rings and seed cotton market shares. Public ginning companies bought the remaining 14.9 percent of the crop.

In 1997/98, there was some negotiation among buyers over sales rings before the season opened, but the principle of one buyer per ring, procuring all the seed cotton delivered, was maintained. There was practically no procurement of seed cotton directly from farmers outside of the sales rings.<sup>32</sup> Buyers were obligated to pay the GOE-declared support prices, and sellers were required to sell at sales rings in order to receive the full support price (which included the deficiency payment amount). Very few small registered cotton traders participated in buying seed cotton in either 1996/97 or 1997/98. Registered and non-registered trader participation was more active and competitive in seed cotton buying in 1998/99; smaller companies delivered seed cotton to large trading companies, who wish to minimize their field presence and procurement transaction costs.

In future years, a large number of buyers, large and small, would offer farmers the best possible prices within a competitive range. Unfortunately, due to exceptionally high world prices in 1995 and too high floor prices in 1996 and 1997, this competitive range will be probably well below the prices farmers received in 1995-1997. Farmers perceived the 1998/99 season of lower world prices for LS and ELS cotton as a cutback in GOE support for cotton production. In response, farmers reduced cotton area to 645,417 feddans in 1999/00, 18.2 percent below the 1998/99 level of 788,812 feddans.

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<sup>31</sup> The MVE survey of private spinners will provide data on their lint cotton procurement patterns. Some private spinners bought Giza 80 in 1998/99, and it will be interesting to see if they paid a premium for any of it supplied by private traders.

<sup>32</sup> MVE conducted a survey of producers selling seed cotton at PBDAC-run sales rings in 1997/98. None of the 296 respondents reported having sold any cotton outside of sales rings, although the MVE survey team obtained some evidence that some producers did. Note that the sample of producers interviewed had a bias in that all of the respondents were selected from farmers who sold seed cotton at sales rings.



In 1998/99, the GOE announced that seed cotton prices would be linked to ALCOTEXA export prices. This resulted in prices paid to producers that were below 1997/98 levels. CSPP and the MALR/CAAE report that farmgate cotton prices in 1998/99 were 21-29 percent below 1997/98 prices, a greater proportional decline than the 4-11 percent decrease in ALCOTEXA export prices (see Table 3-13). In comparing gross margins to cotton cultivation in Dakhalia in 1997/98 and 1998/99, CSPP and MALR/CAAE conclude that the gross margin declined 35.5 percent from 1,790 LE/feddan to 1,155 LE/feddan. Assuming land rental and taking higher land rental costs in 1998/99 into account for tenant farmers, the gross margin decreased from 1,390 LE/feddan to 489 LE/feddan, a 64.8 percent decline (CSPP and MALR/CAAE, October 1998).

However unsatisfied cotton producers were with seed cotton prices in 1998/99, prices and returns are likely to be no higher in 1999/2000. According to some sources, farmers expected higher prices in 1998/99 than in 1997/98 because of the explicit link that the GOE made in public announcements in August 1998 between producer and export prices. It appears as if many farmers were unaware of the large carryover stocks in Egypt, which contributed to poor world market conditions and prices, and overall soft international demand for fine cotton.

**Table 3-13: Comparison of Cotton Prices in 1997/98 and 1998/99**

Variety	Export Price			Farm Gate Price		
	1997/98 (cents/lb.)	1998/99 (cents/lb.)	Price Decline	1997/98 (LE/seed kentar)	1998/99 (LE/seed kentar)	Price Decline
<b>Giza 45</b>	245	220	10%	1000	787	21%
<b>Giza 87</b>		130			450	
<b>Giza 76</b>	135	120	11%	590	447	24%
<b>Giza 70</b>	130	117	10%	565	447	21%
<b>Giza 77</b>	122	112	8%	550	427	22%
<b>Giza 88</b>		112			437	
<b>Giza 86</b>	106	100	6%	500	392	22%
<b>Giza 89</b>	100	94	6%	500	355	29%
<b>Giza 75</b>	100	94	6%	500	357	29%
<b>Giza 85</b>	96	92	4%	500	356	29%
<b>Giza 80</b>	92	88	4%	440	338	23%
<b>Giza 83</b>	92	86	7%	440	329	25%

Source: CSPP with MALR/CAAE, The Cotton Prices for 1998 and their Impact at Farm Level, October 1998.

## **4. COMPETITION IN SEED COTTON BUYING**

### **4.1 Competition in 1997/98**

The MVE survey did not directly ask participating traders about competition in 1997/98, and it covered sales rings where only three private trading companies bought seed cotton. The seed cotton marketing system was inherently non-competitive in 1997/98, as nearly all of the seed cotton was procured through PBDAC-administered sales rings, where prices were fixed.

The November 1998 survey of 74 seed cotton buyers revealed that 19 traders in the sample did buy 20,700 kentars of seed cotton directly from farmers outside of sales rings in 1998/99. Of this modest amount, 12,730 kentars (61.5 percent) were delivered to private companies, and the rest was delivered to public trading and ginning companies. In either case, the 19 participating traders acted as commission agents, assembling small lots of seed cotton from small farmers and delivering it in larger lots to larger market participants. Farmers who sold outside sales rings probably received only one offer, priced slightly below the fixed price at the sales rings.

### **4.2 Competition in 1998/99**

When asked to assess competition in seed cotton marketing in the areas where they bought cotton, 42 sample traders reported that the market was competitive (very or moderately competitive), while 29 reported that the market was either not very competitive (13) or not at all competitive (14).<sup>33</sup> Tabulating sample traders' opinions on competition by governorate reveals that the three respondents who found marketing to be very competitive in their areas are based in Dakhalia, while all 11 of the Beheira-based traders in the sample characterized the market in their area as lacking in competition (3 reported it was not very competitive and 8 reported it was not at all competitive). This sentiment about the market in Beheira had a lot to do with the fact that the variety grown there, Giza 70, was a slow-moving variety, whose export price was set at a too high level by ALCOTEXA, which led to high seed cotton prices paid at PBDAC sales rings. In other words, at the prices set by ALCOTEXA, world demand and domestic private buyer interest were limited for Giza 70. In contrast to Beheira, all of the Beni-Suef and Fayoum traders in the sample who answered the question stated that the seed cotton market was moderately competitive in their governorates. Sharkia traders were evenly divided between moderately competitive and not very competitive, while two-thirds of the Menoufia traders reported that the seed cotton market was moderately competitive.

Based on the private sector experience in seed cotton buying in 1998/99, fully 89 percent of the sample traders (66 of 74) planned to buy seed cotton in 1999/2000, which is another positive sign that the market for seed cotton is becoming more liberal. Of the five traders who reported reasons for not buying seed cotton in 1999/2000, two plan to retire from trading, and one each cited government interference in the market, lack of adequate finance, and poor market organization as reasons. Furthermore, 80 percent of the sample traders said that the GOE should not declare a support price in 1999. If there were to be a support price in 1999, 60 of 66 respondents (91%) said that it should be announced before planting, and four stated it should be

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<sup>33</sup> Three traders did not respond to this question.

announced right after planting. The 20 percent of the trader sample that desires a GOE support price cited the need to protect both producers and farmers.

Forty-three of 67 traders (or 58.1 percent of the sample) reported that they bought better grades of seed cotton, while 27 traders bought all grades. The active search for better grades helped to stimulate competition. Furthermore, most traders (55) said that they did not pay the same premiums or discounts for higher or lower grades of seed cotton as found in the CATGO/CIT-HC price tables.<sup>34</sup> In other words, many sample traders paid larger inter-grade premiums or discounts, reflecting strong demand and buyer competition for higher grades and the inappropriateness of fixing inter-grade price differentials at only 6 LE. Grade price differentials need to reflect what the market (i.e., domestic and foreign buyers ) is willing to pay for quality differences and cannot be administratively determined.

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<sup>34</sup> 12 sample traders did not respond to this question. Perhaps they feared official retaliation for not adhering strictly to the CATGO/CIT-HC price tables.

## 5. TRADERS' BUYING OF SEED COTTON IN EARLIER YEARS

Krenz (CSPP Report, 1997; various *Monitoring and Verification Reports* for USAID) has described in detail elsewhere seed cotton marketing practices during the first three years of cotton market liberalization. During 1994/95 and 1995/96, the private sector bought 30.8 percent and 52.8 percent of the seed cotton in Egypt, a significant achievement during the first two years of market reform (see Ender et al., *A Baseline of APRP Progress Indicators, 1990-1997*, 1999). This was followed by a year, 1996/97, during which the public sector once again purchased virtually all (99.9%) of the seed cotton grown in Egypt, because the GOE declared seed cotton support prices well above world prices. MVE will not recount the story of private sector participation in general during those first three years, but it will summarize important survey findings from its analysis of sample traders' buying practices prior to the 1998/99 season.

Tables 3-7 and 3-8 show sample seed cotton purchases by buying location and seller type for the five-year period, 1994/95 to 1998/99. We should interpret the data from the earlier years with caution, given the length of the recall period. Note that the number of traders in the sample of 74 who participated in seed cotton buying was high in 1994/95 (n=45) and 1995/96 (n=58), then fell to low levels in 1996/97 (n=16) and 1997/98 (n=20), and finally rose back to 67 in 1998/99, or 90.5 percent of the sample.

In 1994/95 and 1995/96, nearly all of the seed cotton was bought directly from farmers in traders' villages or nearby villages. Two traders also report having bought cotton from farmers at cooperative collection centers—322,000 kentars in 1994/95 (or 31.4 percent of the sample total) and 271,133 kentars in 1995/96 (or 65.6 percent). Netting out these two cases, private traders bought an average of 16,343 kentars in 1994/95 and 2,588 kentars in 1995/96. One to two percent of the total volume of seed cotton was bought at traders' own sales rings. By contrast, this proportion rose to 22.3 percent in 1998/99.

But it is encouraging to note that most sample traders (59 of 66 who bought seed cotton in 1998/99) stated that they planned to participate in seed cotton buying in 1999/2000 (all 7 of 7 who did not buy in 1998/99 intended to participate in 1999/2000). Furthermore, 53 of the 66 sample traders (80.3%) stated that the GOE should not declare a support price in 1999/2000, while 11 said that they should. This shows that traders have confidence in their ability to interpret supply and demand conditions for seed cotton and offer competitive prices that allow for profitable participation.

What is most striking about traders' purchases during the first four years of this period is that producers supplied virtually all of the seed cotton to traders (see Table 3-9). Purchases from other traders were nil, except in Fayoum, where traders bought 14,600 and 11,000 seed cotton kentars from other traders in 1994/95 and 1995/96 respectively.

The locational pattern of seed cotton procurement varied a lot across the five years, as shown in Table 3-8. In 1994/95, sample traders purchased 67.8 percent of their seed cotton from the village level and 32.2 percent from collection centers run by cooperatives or their own sales rings. This was reversed in 1995/96, when trader buying at collection centers and their own sales rings predominated (67.1 percent) relative to buying in villages (32.9 percent). Total seed cotton

purchases by sample traders fell 59.7 percent from 1,024,766 seed kentars in 1994/95 to 413,462 kentars in 1995/96. This decline continued to 20,080 seed kentars in 1996/97, with all of the seed cotton bought by sample traders at the village level directly from producers. In 1997/98, sample traders bought only 20,700 seed kentars, again all from farmers. Traders' seed cotton purchases increased over four-fold from the low level of 1997/98 to 93,732 seed kentars in 1998/99, of which 77.7 percent was obtained directly from farmers in villages. In 1998/99, trader purchases at their own sales rings were significant (20,860 seed kentars or 22.3 percent of the total), presaging a new means of procurement. Note that there were purchases at own sales rings in 1994/95 and 1995/96, but this form of buying represented only 0.8 and 1.5 percent respectively of total volume procured.

The positive developments in 1998/99, relative to the two previous years, were that traders bought some seed cotton at their own sales rings and from other traders, although both the quantities and proportions purchased by these means were modest. MVE hopes that procurement through rings and from other traders will expand in the future, as more small-and medium-scale traders buy seed cotton.

## **6. TRADERS' SALES OF SEED AND LINT COTTON**

### **6.1 Seed Cotton Sales during the 1998/99 Marketing Season**

Sample traders invariably sold their seed cotton to larger traders and ginneries in both the public and private sectors. None of the sample traders exported lint cotton in 1998/99, although two firms are registered exporters and hence ALCOTEXA members.

Referring to Table 3-11, one observes that only 7.7 percent of traders' sales of seed cotton were to public companies. Sales to public companies were more common in Beheira (71.0%) and Menoufia (33.1%). In four of six sample governorates, traders sold most of their seed cotton, ranging from two-thirds to 100%, to private companies. Overall, 91.7 percent of the seed cotton in the sample was sold to private companies. If the largest, Dakhalia-based trader is added to the sample, however, sales to private sector companies decreased to 69.7 percent of total seed cotton sales.

Table 3-11 also shows that sample traders sold most of their seed cotton to private sector companies in 1997/98. In 1996/97, sales to public companies were slightly larger than sales to private sector companies.

Sample traders active in buying seed cotton in 1998/99 sold their seed cotton at a number of locations, as shown in Table 6-1. Thirty-six percent of the sample traders' reported that they sold seed cotton at buyers' sales rings, 14% at the buyers' gins, and 29% at gins not owned by the buyer. Only two traders, both located in Sharkia, reported selling at their own rings, while 9 traders (13%) stated that they sold their seed cotton at their principal place of doing business (7 of 9 were based in Sharkia). Another 12 traders (18%) reported selling at another, unspecified location. Note that 11 traders sold at two different locations, while 55 sold all of their seed cotton at only one location.

### **6.2 Lint Cotton Sales**

Twelve sample traders (18% of the 67 active in 1998/99) sold lint cotton. As shown in Table 6-2, these traders are concentrated in three governorates and the average quantity of lint sold varied widely by governorate. On average, these 12 traders sold 28.9 percent of the total seed cotton they purchased as lint. One would expect *a priori* that the sample traders selling lint cotton would be larger-volume and -scale operators than traders selling only seed cotton. Larger cotton dealers would be more likely to look for opportunities to take on more marketing functions and earn potentially higher returns, whereas smaller seed cotton traders are more likely to sell seed cotton shortly after they buy it in order to turn over (their more limited) working capital. The sample data show that the mean volume of purchased seed cotton for traders who converted it to lint (and sold it as such) was 9,376 seed kentars, as compared to the whole sample mean (for

**Table 6-1 : Point of Sale for Sample Traders' Seed Cotton, 1998/99**

Governorate	# Reporting Traders	Own Sales Ring	Buyer's Sales Ring	At Buyer's Gin	At Gin Not Owned by Buyer	At Principal Place of Business	At Another Location	Traders Selling at	
								Only	Two
<b>Beheira</b>	11	0	8	0	0	1	2	11	0
<b>Dakahlia</b>	14	0	4	2	10	0	2	10	4
<b>Menoufia</b>	11	0	7	1	2	0	3	9	2
<b>Sharkia</b>	14	2	3	2	1	7	2	9	5
<b>Beni-Suef</b>	8	0	0	2	3	1	2	8	0
<b>Fayoum</b>	8	0	2	2	3	0	1	8	0
<b>Total</b>	<b>66</b>	<b>2</b>	<b>24</b>	<b>9</b>	<b>19</b>	<b>9</b>	<b>12</b>	<b>55</b>	<b>11</b>
<b>% Total</b>	<b>100%</b>	<b>3%</b>	<b>36%</b>	<b>14%</b>	<b>29%</b>	<b>14%</b>	<b>18%</b>	<b>83%</b>	<b>17%</b>

Note: One sample trader in Sharkia did not report sales of seed cotton. He sold only lint cotton.



**Table 6-2: Sample Traders' Sales of Lint Cotton**

Governorate	Variety (Giza)	No.	Mean Sales Volume	Average Out-turn Ratio	Seed Cotton Equivalent	Lint as % of Total
Dakhalia	86	4	7599	116.8	6435	21.6
Menoufia	89	1	4880	122.0	4000	46.5
Sharkia	85	7	318	118.5	268	9.2
Total		12	3635		2708	16.3

Note: Lint as a percentage of sales is the seed cotton equivalent (sold as lint) divided by total seed cotton purchases of all sample traders. The average out-turn ratio for Giza 86 grown in Dakhalia, calculated from what traders reported, differs from the calculated out-turn of 118.1.

those 67 traders who bought seed cotton in 1998/99) of 2,871 seed kentars and 1,451 seed kentars for the 55 traders who did not sell any cotton as lint.<sup>35</sup>

When asked about how lint was priced, half of the 12 sample traders reported that the CATGO price tables served as a basis for pricing (where multiple responses were possible). In addition, four reported that they priced lint based on their experience in trading, one reported using a broker, four reported taking samples to private buyers (and getting their offers), and one reported that he used the out-turn from the ginning process.

### 6.3 Traders' Knowledge of World Lint Cotton Prices

Traders' knowledge of world prices of Egyptian and other internationally traded cottons is surprisingly limited. Only 6 of 74 traders said that they knew these prices for the varieties they traded, and they reported the lint cotton prices correctly for Gizas 70 and 80. Their quotes for the leading export variety, Giza 86, tended to be on the low side.

Although traders' specific knowledge of world prices was limited, most (59 of 74) knew that the reason for lower domestic seed cotton prices in 1998/99, relative to the past two years, was that world prices had declined. In addition, 24 attributed the Egyptian price decline to GOE holding of large stocks, 15 reasoned that there was less participation by public sector companies than in the past (particularly in Dakhalia, where 12 of 16 traders gave this reason), four stated that the GOE had not announced a support price, and 18 offered other reasons. Even though many private cotton buyers realized that the public sector presence was diminished in the market in 1998/99, 76% (56 of 74) still thought that the GOE companies were making a profit.

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<sup>35</sup> Note that the results are skewed a bit by one large trader based in Dakhalia, who bought 100,000 seed cotton kentars in 1998/99 (or 52% of the total for all the sample traders) and sold 25,400 seed kentars as 30,000 lint kentars. If this case is omitted, the averages for the 11 other traders who sold lint cotton are 682 lint kentars, equivalent to 645 seed cotton kentars.

## 7. SOURCE OF WORKING CAPITAL AND PAYMENT ARRANGEMENTS

### 7.1 Working Capital

In 1998/99, 58 of the 66 traders who actually bought seed cotton (87.9 percent) reported that they were entirely or partly self-financed. This is an important finding, because 63 of 66 sample traders (95.5%) reported paying cash on the spot for the seed cotton they bought, and two other traders reported paying an initial cash installment. Access to working capital may constrain the scale and operations of most private traders. Forty-six of 67 participating sample traders (68.7%) bought less than 1,000 kentars of seed cotton in 1998/99. Assuming an average price paid of LE 350 per kantar, and average purchases of 500 kentars for this sub-sample of traders, traders would need funds of LE 175,000 to buy those 500 kentars (assuming no capital rotation).<sup>36</sup> This sum is equivalent to \$51,320, representing a sizeable investment in working capital for small Egyptian businessmen.

Eight traders reported using other people's funds entirely; hence, they acted as buying agents for larger companies. Traders' sources of finance other than their own funds were as follows, where multiple responses were possible:

- C 5 of 66 obtained a loan from a commercial bank
- C 8 obtained a loan from PBDAC
- C 5 got an advance from a public sector trading or ginning company to purchase cotton
- C 2 received an advance from a private ginning company
- C 25 received an advance from a private trading company

Although fully 37.9 percent of the 66 traders reported receiving funds from a private trading company, MVE did not obtain data on the magnitude of this source of funding relative to other sources during 1998/99.

When including source of finance data from all sample traders (including those who did not trade seed cotton in 1998/99), the breakdown is as follows:

- C 10 reported not using their own capital, of which six obtained funds from a private cotton trading company and four reported no funding source whatsoever.
- C 64 reported using their own funds to purchase seed cotton, of which:
  - C 25 traders used only their own funds, and
  - C 39 used funds from some other source as well as their own funds.

These data should be interpreted with caution, as seven of the 74 traders are referring to years before 1998/99.

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<sup>36</sup> It is quite likely that private traders sell their seed cotton soon after they buy it from producers and small traders. Rotating their capital quickly would reduce the capital requirement.

Of the 39 sample traders who used funds from some other sources, 20 obtained funds from private trading or ginning companies, 7 received advances from public trading or ginning companies, 4 obtained commercial bank loans, and 8 obtained PBDAC bank loans.<sup>37</sup> Nine of the 39 traders reported other sources of finance, including relatives and friends (5) and business partners (4).

The geographic pattern of access to working capital is that five traders in three of the six survey governorates reported that they obtained loans from commercial banks (Beheira, Dakhalia and Menoufia). The eight PBDAC loans were obtained by traders in four of six governorates (excluding Beheira and Dakhalia). The five traders who received advances from public trading or ginning companies were concentrated in Beheira, Dakhalia and Sharkia. Of the 25 traders who said they received advances from larger private trading companies, 11 (of 14 total respondents in the governorate) came from Dakhalia, 7 (of 14) were based in Sharkia, and 4 (of 8) came from Fayoum. This source of private finance was virtually absent from Beheira, Menoufia and Beni-Suef. Two traders in each governorate except Beni-Suef and Fayoum reported other sources of finance.

## **7.2 Methods of Payment**

As noted above, during the 1998/99 marketing season, 63 of 66 sample traders (95.5%) reported making a full cash payment for the seed cotton that they bought, while two other traders reported making an initial cash payment to sellers.

When selling seed (or lint) cotton to larger traders and ginners, 59 of the 67 sample traders who bought seed cotton in 1998/99 received the entire cash payment on delivery. In the majority of cases, therefore, buyers seem to be willing to make the full cash payment before the ginning takes place and on the basis of the initial grading of the seed cotton.<sup>38</sup> Of the seven who reported that they did not receive cash, six stated that they received a partial payment from the buyer and the balance once the ginning was completed and the ginning out-turn was known.

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<sup>37</sup> Some of the PBDAC loans may have been for production rather than marketing credit.

<sup>38</sup> Typically, the grade for a lot of seed cotton is lower than the final grade for the same lot of lint cotton. In other words, the grade improves with ginning, as many gins will clean or blow out at least some of the impurities and the resulting lint cotton will look cleaner and better.

## **8. PERFORMANCE OF MARKETING FUNCTIONS**

### **8.1 Grading Seed Cotton**

During 1997/98 the vast majority of grading of seed cotton was done by CATGO graders. In the five Delta governorates where MVE sampled sales rings, there were 168 graders, of which 106 or 63 percent were permanent and other 62 were temporarily assigned by MALR to be graders. In the Middle and Upper Egypt governorates where MVE surveyed sales rings, there were 67 graders, of which 25 or 37 percent were permanent and the remaining 42 assigned. An Annex 2 table provides a breakdown of permanent and assigned graders by governorate.

Given the number of sales rings that each grader covered in 1997/98, graders graded seed cotton at only one sales ring per working day. They worked six days a week and graded at one ring per day, working an average of one hour and forty minutes at each ring. With improved transport, CATGO and MALR graders could cover more than one sales ring per day.

During 1997/98, graders classified seed cotton in a national average (for the sample governorates) of five grades, with four grades given on average in the Delta and six in Middle and Upper Egypt (see annex table).

During the 1998/99 marketing season, grading of seed cotton bought by sample traders was done by the traders themselves in 82 percent of the cases (54 of 66). In only four cases was that function delegated to another employee in the same company. Clearly, since grade is an important determinant of price, the trading company purchasing the seed cotton tends to reserve this function for itself. In the other eight cases, traders used CATGO (3 cases) to do the grading, a private grader (2), a grader from the supplying trading company (1), and a grader from a larger buyer (2).

### **8.2 Transporting Seed Cotton**

Transport costs from the farm to the first assembly point for buyers are paid in 57 percent of the cases by the traders (buyers) and in 43 percent of the cases by sellers. Transport cost LE 1.7 per seed cotton kantar, and the means of transport was either motorized transport (59 percent), generally rented (86% of the cases), or donkey-drawn cart (41 percent).

Thirty-seven traders paid to transport seed cotton from the first assembly point to a sales ring (operated typically by a larger trader). The trader invariably paid the cost of this transport, which average LE 3.0 per seed cotton kantar, and the transport was almost always motorized (and rented out). In only eleven cases did traders transport seed cotton from the first assembly point to a gin; they always paid for this transport and it cost an average of LE 2.5 per seed cotton kantar. Finally, 27 traders paid an average of LE 3.0 per kantar to transport seed cotton from the first assembly point to their own or another trader's stores.

### **8.3 Storage**

Of the 74 sample traders interviewed in November 1998, 54 or 73% have an area for storing seed cotton. Half of the sample traders in Dakhalia do not have any capacity to store, which may reflect how fast-moving the variety Giza 86 has been in recent years. About 40% of the sample traders in Beheira and Fayoum also lack storage capacity. Table 8-1 shows that the average storage area of the 54 traders with storage was 717 square meters in 1998/99. Only eight of the sample traders were actually using their storage area in November 1998, and the average quantity they were storing was modest (78.8 seed kentars). This was only a small fraction (0.9%) of the total quantity of seed cotton bought by the 48 active sample traders (among the 54 with access to storage), whose average amount purchased was 1,535 kentars.

### **8.4 Other Marketing Functions**

All 67 sample traders paid for and provided farmers with jute sacks for seed cotton in 1998/99. These sacks cost an average of LE 6.3 per bag, with the average price being lowest in Dakhalia (LE 5.6) and highest in Menoufia (LE 6.9) and Beni-Suef (LE 6.8).

**Table 8-1: Sample Traders' Storage Capacity and Use, November 1998**

Governorate	Sample	Traders with Storage Capacity		Mean Storage Capacity	Active Traders in 1998/99	Active Traders with Storage Capacity		Active Traders Using Storage in November 1998		
		N	%	sq. meters	N	N	%	N	% Active	Aver. m <sup>2</sup>
<b>Beheira</b>	13	8	61.5%	233.8	11	6	54.5%	1	16.7%	100.0
<b>Dakahlia</b>	16	8	50.0%	1628.8	15	6	40.0%	1	16.7%	35.0
<b>Sharkia</b>	15	15	100.0%	163.3	14	15	107.1%	6	40.0%	82.5
<b>Menoufia</b>	12	10	83.3%	484.5	11	9	81.8%	0	0.0%	0.0
<b>Beni-Suef</b>	8	7	87.5%	1585.7	8	7	87.5%	0	0.0%	0.0
<b>Fayoum</b>	10	6	60.0%	906.7	8	5	62.5%	0	0.0%	0.0
<b>Total</b>	74	54	73.0%	717.3	67	48	71.6%	8	16.7%	78.8

Source: MVE survey of 74 seed cotton traders, November 1998.

## 9. REMAINING CONSTRAINTS ON PRIVATE TRADER PARTICIPATION

While private sector traders were able to buy and sell seed cotton, several private trading companies claim that they would have bought more seed cotton had there not been any CIT-HC and CATGO intervention in pricing. They note that the level of ALCOTEXA lint cotton export prices was set 5-10 percent too high for ELS varieties in 1998/99, and that producer seed cotton prices were linked to the export prices. In a completely open market, private traders could offer less for seed cotton assembled in villages or at their own rings. Although there was considerable weakness in demand for ELS and some types of LS cotton during 1998, ALCOTEXA prices were set on the high side, relative to prices of competing international growers, to help maintain reasonable returns to cotton growers, whose incomes declined due to poor cotton yields, higher input costs (including land rent), and lower producer prices than in 1996/97 and 1997/98. A few of the large private traders who did not buy at PBDAC sales rings, but who bought a significant quantity at their own rings or from producers and small traders in villages, stated that they would have had to accept all the seed cotton delivered to the PBDAC rings, including low-grade, non-exportable cotton.

Despite the increased proportion of farmer sales to private traders in 1998/99, most farmers are still more comfortable selling their seed cotton at PBDAC sales rings (36 percent of the sample farmers)<sup>39</sup> or do not know of any alternatives (34 percent). Others feel compelled to sell at PBDAC rings to repay their production loans (21 percent) or said they did not know the prices private traders would offer at the time they were picking their seed cotton (8 percent).

The fact that nearly all of the farmers selling at PBDAC sales rings seemed wary of private traders, or did not know them, or are tied to PBDAC through loans indicates that it will take time for the seed cotton marketing system to change. Historically, farmers have regarded cotton as the Government's crop, and they have received all information, instructions and services concerning planting, pest control, seed cotton delivery and payment from the GOE. The MALR might consider preparing some marketing extension messages for farmers that inform farmers about their seed cotton marketing alternatives. Public announcements can also inform farmers of the rules of the game regarding seed cotton buying for each upcoming marketing season.<sup>40</sup> By improving the transparency of the cotton marketing policy and regulatory environment, the GOE can hasten the liberalization process.

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<sup>39</sup> This 36 percent of the sample farmers responded, more precisely, that they *trusted the PBDAC sales rings*. Note that 77.7 percent of the seed cotton was delivered to the PBDAC rings, of which 18.5 was purchased by private companies.

<sup>40</sup> Note that the Deputy Prime Minister and Minister of Agriculture, Dr. Youssef Wally, does make periodic announcements about intentions regarding seed cotton production, pest control and marketing. Not all producers are literate, however, or have access to newspapers, and not all ministerial announcements are televised.

## 10. SUMMARY OF LIBERALIZATION PROGRESS

Significant progress was made in the 1998/99 cotton marketing season in returning the subsector to a liberalization path. More private trading companies participated in buying seed cotton in 1998/99 than in the two previous seasons, and the ten major private traders delivered 28.1 percent of the crop to the gins, well above the 6.5 percent of 1997/98. In addition, the GOE did not announce a producer support price before or during the 1998/99 marketing season, although prices paid by public and private traders at PBDAC-run sales rings were fixed by variety and grade, yet linked to ALCOTEXA's opening export prices for lint cotton.

Ten large private trading companies bought seed cotton directly from traders or producers, and they paid market-determined prices that were related to, but not determined by, the fixed prices paid at PBDAC sales rings. Two private trading companies also bought seed cotton delivered to the gins. Prices paid to producers and traders outside the PBDAC rings were sometimes lower and sometimes higher than the fixed prices, depending on the distance from the gins, the variety, and the grade estimated by the buyers.

The fixing of prices at PBDAC sales rings appears to be an artifact of the era of public sector control over seed cotton marketing. As long as there are public sector cotton trading companies, the CIT-HC, CATGO and ALCOTEXA maintain fixed prices and margins to be able to account for these companies' operating costs and returns. This contributes significantly to the relative price inflexibility. Once opening export prices are set, it becomes difficult to lower them, as public sector buyers will incur losses if prices are lowered during the course of the season, as they paid higher (early season) prices to farmers based on the opening export prices.<sup>41</sup> Privatization of the public sector cotton trading companies is a critical step toward accelerating and finalizing the liberalization of cotton marketing in Egypt.

Note that, under the system of fixed prices paid to producers at PBDAC sales rings, private sector exporters may also oppose lowering of ALCOTEXA export prices, which reduces their gross export marketing margin and lowers export profitability. In 1998/99, several exporters opposed lowering ALCOTEXA's export prices for Giza 70, because this induced some foreign buyers to cancel their Giza 86 contracts and shift to Giza 70. From May 8, 1999 to July 31, 1999, Giza 86 export commitments dropped 3,388 mt while commitments for Giza 70 expanded by 3,694 mt. This represents, in large part, a shift from Giza 86 to Giza 70 by the same buyers, rather than new business (additional export demand) for Giza 70. Giza 70, a superior fiber to Giza 86, had become relatively cheaper and a better value than Giza 86 at the changed relative prices.<sup>42</sup>

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<sup>41</sup> The vast majority of the seed cotton is purchased by the trading companies in the first three months of the cotton marketing season. If export prices are not lowered early in the season, most trading companies will buy all or nearly all their seed cotton at the typically higher opening prices.

<sup>42</sup> Giza 86 was also subject to numerous foreign buyer complaints and arbitration in 1998/99. Not only were yields poor, but Giza 86's technical properties (and spinnability) were inferior in 1998/99 to the two previous seasons, during which Giza 86 gained tremendous export momentum and a strong reputation among buyers.



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## ANNEX 1

### Registered Cotton Buyers in Egypt

Table A1-1 shows the breakdown of registered cotton buyers in Egypt, as of the end of the 1997/98 cotton marketing season. 197 companies and individual traders had registered from 1994 through the end of the 1997/98 season to trade seed cotton in the domestic market. By the end of the 1997/98 season, 59 companies had dropped their registration. Most of these firms appear to have retained their registered status, but they did not participate in seed cotton buying during the 1996/97 marketing season, when private sector participation was far below the levels of 1994/95 and 1995/96.

Of the remaining 138 registered companies in January 1999, 86 (or 62 percent) were small- to medium-scale private firms (or individual traders). Thirteen were private sector ALCOTEXA members that are also registered seed cotton buyers. Three are not: Nefertiti Company for Industry and Trading,<sup>43</sup> Abu Madawy Cotton Trading Company, and the Arab Trade and Investment and Cotton Trading Company. Two companies, not included under the 86 other private buyers, used to be ALCOTEXA members: Al Ahly Cotton Trading Company and the Egypt Company for Cotton Ginning. There is one private sector spinner, Giza Spinning and Weaving, that is also a registered buyer. Since it still operates like a public sector company, Unirab Spinning Company is classified as a public sector spinner. In total, 102 registered firms are private sector companies.

The remaining 36 registered companies are public sector entities, of which 6 are public sector cotton trading companies, 3 are public sector ginning companies, 11 are public sector spinners, 13 are cooperatives or producer organizations, and three are other (the CIT-HC, the ARC Horticultural Services Unit, and the Egyptian Cotton Pressing Company).

The geographic distribution of the remaining registered smaller private sector firms shows that they are concentrated in the Delta (55 of 86), Cairo/Giza (8), Alexandria (9), and Fayoum (9). There is only one registered trader each in Beni-Suef, Minya, Assiut and Sohag in Middle/Upper Egypt. In the Delta, there is also only one in Qalubeya, two in Menoufia, and none in Damietta. 55 of the 86 (or 64 percent) registered buyers are concentrated in five governorates: Beheira, Dakhalia, Fayoum, Cairo/Giza, and Alexandria. The companies based in the two major metropolitan areas have field operations in cotton producing governorates, particularly the Delta. The pattern of cancelled registrations shows that 39 of 59 of those who cancelled were from the five aforementioned governorates. 25 of 80 original registrees in the Delta have cancelled, while 8 of 19 in Middle Egypt, 3 of 6 in Upper Egypt, and 17 of 34 in the two metropolitan areas.

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<sup>43</sup> Two Nefertiti companies are ALCOTEXA members: Nefertiti Company for Industry and Trading, and Nefertiti for Cotton Trading and Export Company. Only one, the latter, is a registered seed cotton buyer.

**Table A1-1: Registered Traders & Sample Registered Traders, by Governorate**

Governorate	<i>Small &amp; Medium Scale Private Traders</i>					<i>Other Private Traders</i>			<i>Public Companies</i>				
	Reg. Traders from CIT-HC Entire List	Traders who Cancelled Registration	Remaining Reg. Traders (end '97/98)	Reg. Traders in Sample	Percentage of Traders Sampled	ALCOTEXA Members*	Other**	Remaining Private Reg. Traders	Traders and Ginners	Spinners (including Unirab)	Coops	Total Public	Total
Beheira	20	7	13	8	62%								
Dakhalia	23	8	15	7	47%								
Damietta	0	0	0										
Gharbeya	13	4	9										
Kafr El Sheikh	8	2	6										
Menoufia	3	1	2	1	50%								
Sharkeya	11	2	9	5	56%								
Qalubeya	2	1	1										
Subtotal: Delta	80	25	55	21	38%								
Beni-Suef	2	1	1	1	100%								
Fayoum	17	7	10	9	90%								
Subtotal: Middle E.	19	8	11	10	91%								
Assiut	1	0	1										
Minya	4	3	1										
Sohag	1	0	1										
Subtotal: Upper E.	6	3	3	0									
Cairo/Giza	14	6	8										
Alexandria	20	11	9										
Subtotal: Metropol.	34	17	17	0									
Don't Know Gov. of	6	6	0										
Cancelled Traders													
<b>TOTAL</b>	<b>145</b>	<b>59</b>	<b>86</b>	<b>31</b>	<b>36%</b>	<b>14</b>	<b>2</b>	<b>102</b>	<b>9</b>	<b>11</b>	<b>13</b>	<b>36</b>	<b>197</b>

Source: List of registered traders, Cotton and International Trade Holding Company.

Note: \* This includes Al Ahly, which used to be an ALCOTEXA member. \*\* This includes one registered private spinner and a private cotton ginning company that is not currently operating.

## **Annex 2: Supplementary Tables**

<b><u>Table A-2 No.</u></b>	<b><u>Table Title</u></b>
1	PBDAC Sales Rings Run for Private Companies, by Governorate and Variety, 1998/99
2	Cropping Enterprises of Sample Traders: Summer Crops
3	Number of Graders, Permanent and Assigned, by Governorate, during the Marketing Season, 1997/98
4	Number of Seed Cotton Grades Given in Sales Rings in Districts and Governorates, 1997/98

**Table A2-1: PBDAC Sales Rings Run for Private Companies, by Governorate and Variety, 1998/99**

Gov./Variety Company Name	Beni- Suef Giza 80	Qalubia Giza 85	Menoufia Giza 89	Gharbia Giza 86	Gharbia Giza 89	Dakahlia Giza 86	Beheira Giza 70	Sharkia Giza 85	Kafr El-Sheikh Giza 86	Kafr El-Sheikh Giza 77	Subtotal: Rings in Delta	Minya Giza 83	Minya Giza 80	Sohag Giza 83	Assiut Giza 83	Subtotal: Rings in Upper Egypt	Total No. Priv. Rings
Nile Ginning	5	0	0	10	3	2	6	6	0	0	32	0	0	0	5	5	37
Arab Ginning	4	2	4	0	0	9	2	6	0	0	27	0	0	0	8	8	35
Modern Nile	5	4	6	0	0	5	4	6	3	4	37	7	0	0	2	9	46
Tanta for Cotton	2	0	0	0	0	0	0	2	0	0	4	0	0	0	0	0	4
El-Mabrouk	3	0	0	0	0	0	0	4	0	0	7	0	0	0	0	0	7
El-Attar	0	1	0	0	0	0	0	1	0	0	2	0	0	0	0	0	2
Nassco	0	0	0	0	2	4	0	0	0	2	8	0	0	0	0	0	8
ATICOT	0	0	0	0	0	0	0	1	2	0	3	2	1	4	0	7	10
<b>Total</b>	<b>19</b>	<b>7</b>	<b>10</b>	<b>10</b>	<b>5</b>	<b>20</b>	<b>12</b>	<b>26</b>	<b>5</b>	<b>6</b>	<b>120</b>	<b>9</b>	<b>1</b>	<b>4</b>	<b>15</b>	<b>29</b>	<b>149</b>

Source: Cotton and International Trade Company, Ginning and Marketing Sector

Note: This table does not include a breakdown for the governorates of Fayoum and Damietta.

**Table A2-2: Cropping Enterprises of Sample Traders : Summer Crops**

Governorate	Cotton					Maize					Rice					Other					Total Farmers
	1st	2nd	3rd	4th	Total	1st	2nd	3rd	4th	Total	1st	2nd	3rd	4th	Total	1st	2nd	3rd	4th	Total	
Beheira	0	0	0	0	0	5	0	0	0	5	0	2	0	0	2	0	0	0	0	0	5
Dakahlia	5	0	0	0	5	0	1	0	0	1	0	4	1	0	5	0	0	0	0	0	5
Menoufia	3	3	0	0	6	4	3	1	0	8	0	0	0	0	0	1	1	1	0	3	8
Sharkia	8	1	0	0	9	0	1	3	0	4	1	8	1	0	10	1	0	0	0	1	10
Beni Suef	5	0	0	0	5	1	3	1	0	5	0	0	0	0	0	0	1	1	2	4	6
Fayoum	6	1	0	0	7	1	1	0	0	2	0	0	0	0	0	1	1	0	0	2	8
<b>Total</b>	<b>27</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>32</b>	<b>11</b>	<b>9</b>	<b>5</b>	<b>0</b>	<b>25</b>	<b>1</b>	<b>14</b>	<b>2</b>	<b>0</b>	<b>17</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>10</b>	<b>42</b>

Note: 1st, 2nd, etc. refer to the order of importance (area cultivated) of each crop in the summer rotation.

**Table A2-3 : Number of Graders, Permanent and Assigned, by Governorate, during the 1997/98 Marketing Season.**

Gov. Location	Governorate	Number of Graders						Total	%	No. of Gradings/Week/Sales Ring	No. of Days/Week per Grader	No. of Working Hours/Day
		Permanent	%	Assigned								
				B.Sc.	Institute	Total	%					
Lower Egypt	Behira	36	27	14	0	14	13	50	21	1	6	2.00
	Dakahlia	25	19	10	0	10	10	35	15	1	6	1.50
	Damietta	15	11	10	0	10	10	25	11	1	6	1.00
	Kafr El Sheikh	18	14	22	0	22	21	40	17	1	6	2.58
	Sharkia	12	9	6	0	6	6	18	18	1	6	2.00
Sub. Total/Avg.		106	80	62	0	62	60	168	72	1	6	1.94
Middle & Upper	Assuit	10	8	18	8	26	17	28	12	1	6	1.44
	Beni Suef	13	10	14	0	14	13	27	11	1	6	1.11
	Sohag	2	2	10	2	12	10	12	5	1	6	2.00
Sub. Total/Avg.		25	20	42	10	52	40	67	28	1	6	1.38
Grand Total		131	100	104	10	114	100	235	100	1	6	1.66

Source: Survey of CATGO representatives in sample governorates, MVE survey of sales rings, November 1997.

**Table A2-4 : Number of Seed Cotton Grades Given in Different Sales Rings in Districts and Governorates, 1997/98**

<b>Region</b>	<b>Governorate</b>	<b>Districts</b>	<b>No. of Grades in Each District</b>
<b><i>Lower Egypt</i></b>	Behira	Damanhour	3
		El-Mahmoudia	6
		Shabrakhit	2
	Dakahlia	Aga	3
		El Manzala	6
		El Sinbelaween	4
	Damietta	Kafr Saad	3
	Kafr El Sheikh	Biela	5
		El-Riad	4
		Metobas	6
	Sharkia	Abou Kebir	2
		Diarb Negm	2
		Zagazig	2
<b>Average</b>	Lower Egypt		4
<b><i>Middle &amp; Upper Egypt</i></b>	Assuit	Abnoub	4
		Abou Tieg	4
		Assuit	7
	Beni Suef	Ahnasya City	6
		El Fashn	5
		Nasser	7
	Sohag	El Manshaa	7
<b>Average</b>	Upper Egypt		6
<b>Entire Sample Average</b>	All of Egypt		5

Source: MVE survey of seed cotton marketing, November 1997.